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No.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

SWEATER BEE BY BANFF, LTD.,

Petitioner,

—v.—

MANHATTAN INDUSTRIES, INC. and
BAYARD SHIRT CORPORATION,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Did the defendants-respondents waive arbitration under the Federal Arbitration Act when the respondents sought (and partially obtained) a dismissal of the petitioner's claims on the merits under Rule 12(b)(6), Fed.R.Civ.P., without mentioning or seeking arbitration until after the decision of their dismissal motion?

2. In holding that the respondents did not waive arbitration in seeking (and partially obtaining) a dismissal on the merits, did the Court of Appeals err:

(a) by authorizing judicial examination of the merits of an arbitrable claim?

(b) by permitting defendants to engage in forum shopping between judicial and arbitral forums on a single claim?

(c) by encouraging defendants to

seek judicial dismissals under Rule 12(b)(6) in arbitrable controversies and thereby imposing on the judiciary an added burden which the Federal Arbitration Act was designed to remove?

(d) by authorizing District Courts to review the arbitral record to determine compliance with their Rule 12(b)(6) decisions, thereby undermining the finality of arbitration awards?

ADDITIONAL PARTIES

In the District Court and in the Court of Appeals, the defendants Don Sophisticates, Inc. and Herbert Rounick were named as additional defendants, but not as appellees. These defendants Don Sophisticates, Inc. and Herbert Rounick were not involved in the issues or claims before the Court of Appeals and are not involved here. (See A.4, n.1.)

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October Term, 1984

SWEATER BEE BY BANFF, LTD.,

Petitioner,

v.

MANHATTAN INDUSTRIES, INC. and
BAYARD SHIRT CORPORATION,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

The plaintiff-petitioner Sweater Bee By Banff, Ltd. ("Sweater Bee") hereby submits its petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit for review of its opinion and judgment filed

February 6, 1985. The Second Circuit has stayed the issuance of its mandate pending this petition.

OPINIONS AND ORDERS BELOW

The opinion of the United States Court of Appeals for the Second Circuit which is reported at 754 F.2d 457 (2d Cir. 1985), was filed on February 6, 1985 and is reprinted as Appendix A. This opinion affirmed the order of the District Court which compelled arbitration of the petitioner's claims.

The order of the United States District Court for the Southern District of New York, which is not reported, was filed on August 23, 1984 and is reprinted as Appendix B. This is the order of the District Court which stayed certain of the petitioner's claims and compelled arbitration thereof.

The earlier Memorandum Order of the

United States District Court for the Southern District of New York, which is not reported, was filed on October 19, 1982 and is reprinted as Appendix C. This earlier Memorandum Order of the District Court granted in part and denied in part the respondents' motion to dismiss the petitioner's claims on the merits under Rule 12(b)(6), Fed.R.Civ.P. (The validity of this earlier Memorandum Order is not now under review, but its resolution of issues going to the merits of the petitioner's claims is pertinent to the petitioner's present argument that the respondents have waived arbitration of the petitioner's claims.)

JURISDICTION

The judgment of the United States Court of Appeals for the Second Circuit, affirming the District Court's order

compelling arbitration, was entered on February 6, 1985. It is reprinted in Appendix D. This petition for certiorari is timely filed within 90 days of the date of that opinion and judgment in compliance with Rule 20.2 and 28 U.S.C. § 2101(c). This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS AND RULES

Title 9, Section 3, United States Code:

> Stay of proceedings where issue therein referable to arbitration.
>
> If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the

applicant for the stay is not in default in proceeding with such arbitration.

Federal Rules of Civil Procedure:

Rule 10(c): Adoption by Reference; Exhibits. . . :

A copy of any written instrument which is an exhibit to a pleading is a part thereof for all purposes.

Rule 12(b)(6): Defenses and Objections--When and How Presented--By Pleading or Motion. . . :

Every defense, in law or fact, to a claim for relief in any pleading . . . shall be asserted in the responsive pleading thereto if one is required, except that the following defenses may at the option of the pleader be made by motion: . . . (6) failure to state a claim upon which relief can be granted . . . .

STATEMENT OF THE CASE

Five years ago the Second Circuit reversed an injunction entered against the petitioner Sweater Bee in which the District Court had enjoined Sweater Bee from use of the Kimberly trademark. The

Second Circuit then held that the petitioner and respondents were entitled to equal and concurrent ownership of the Kimberly trademark. Manhattan Industries, Inc. v. Sweater Bee By Banff, Ltd., 627 F.2d 628 (2d Cir. 1980). The Second Circuit then remanded for entry of an order differentiating the parties' respective Kimberly trademarks. 627 F.2d at 631. (A.2-3.)

On remand the parties and the District Court signed a consent injunction implementing the Second Circuit's mandate of trademark differentation by requiring each party to use an explicit source-reference with the Kimberly trademark and tradename. The consent source-reference injunction enjoined the parties from using the Kimberly trademark or tradename except with a source-reference (such as "Kimberly by Manhattan," "Kimberly by Sweater Bee," etc.) (A.3). The source-

reference injunction covered all uses of the Kimberly trademark and tradename (A.3), contained a provision for arbitration of disputes arising under it (A.5), and was filed on February 27, 1981.

For 3 years after filing of the source-reference injunction, the respondents Manhattan-Bayard blatantly violated the source-reference injunction on a massive and pervasive scale. The respondents used the valuable trademark and tradename "Kimberly" without a source-reference on every conceivable medium: on thousands of clothing labels, telephone directory listings, lobby directory listings, print advertisements, trade show catalogs, building catalogs, corporate annual reports, clothing invoices, clothing purchase orders, letterhead, business cards and clothing hang tags (A.7).

The petitioner sought redress for

these source-reference violations in the present action. The petitioner filed this action on June 26, 1981 seeking recovery on other matters. On March 24, 1982 the petitioner Sweater Bee filed an Amended Complaint as a Matter of Course in this action asserting liability for the respondents' violations of the source-reference injunction under various tort theories including the Lanham Act, the Sherman Act and New York common law (A.3, 98-103).[1] Jurisdiction of the petitioner's claims was predicated on 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1337. During the next 2 years -- while the petitioner Sweater Bee prosecuted these source-reference claims -- the respondents Manhattan-Bayard continued

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[1]The Amended Complaint does not contain allegations of all source-reference violations, as the petitioner became aware of additional source-reference violations only after filing the Amended Complaint.

and expanded their source-reference violations (A.7).

On April 27, 1982 the respondents moved to dismiss the Amended Complaint, including its source-reference claims, pursuant to Federal Civil Rule 12(b)(6) (A.4). On October 19, 1982 the District Court granted in part and denied in part the respondents' motion (A.28-52). The District Court dismissed the petitioner's claims for interference with contractual relations (A.47-48) and prima facie tort (A.52). The District Court upheld the petitioner's claims for violation of the Lanham Act (A.42-43), and for fraud (A.45-46), unfair competition (A.46-47), interference with prospective business relations (A.47-48), commercial disparagement (A.48-49), and punitive damages (A.50-51). To the extent that the District Court granted the respondents' Rule 12(b)(6) motion, the District

Court's dismissal was on the merits. See Federated Department Stores v. Moitie, 452 U.S. 394, 399 n.3 (1981) (dismissal under Rule 12(b)(6) is on the merits). To the extent that the District Court denied the respondents' Rule 12(b)(6) motion, the District Court decided important legal issues by confirming the applicability of the Lanham Act (A.42-43) and important common law doctrines to the source-reference violations (A.45-51). The respondents never mentioned or sought arbitration before or during their Rule 12(b)(6) motion.

Dissatisfied with the results of their dismissal motion under Rule 12(b)(6), the respondents on January 20, 1984 wrote to the District Court that they intended to seek arbitration of the same claims on which they had failed to procure a judicial dismissal (A.150). The petitioner Sweater Bee objected on

that same day on the ground that the respondents were improperly forum shopping in their attempts to gain an arbitral forum after the District Court had denied their motion for dismissal on the merits (A.156).

On June 26, 1984 the respondents moved to stay those source-reference claims which the District Court had not dismissed (A.5). The petitioner Sweater Bee vigorously opposed the motion, but on August 23, 1984 the District Court granted the respondents' motion to compel arbitration of the remaining source-reference claims (A.22, 23-24). The Second Circuit affirmed. Sweater Bee By Banff, Ltd. v. Manhattan Industries, Inc., 754 F.2d 457 (2d Cir. 1985) (A.1-21). The Second Circuit has stayed the issuance of its mandate pending this petition.

REASONS FOR GRANTING THE WRIT

The Second Circuit's decision appears to be the only reported case allowing a party to test the merits of an arbitrable claim in the District Court and then still proceed to arbitration under the Federal Arbitration Act. As shown below, the Second Circuit's decision not only is unfair, but also is disruptive of both judicial administration and arbitration policy in several respects. The Second Circuit's decision (1) authorizes judicial intrusion into the arbitral sphere by allowing judicial examination of the merits of an arbitrable claim in violation of this Court's decisions, (2) permits defendants improperly to engage in forum shopping and forum skipping between judicial and arbitral forums on a single claim, (3) improperly encourages defendants to seek judicial dismissals under Rule 12(b)(6) in arbitrable

controversies and thus improperly imposes on the judiciary an added burden which the Federal Arbitration Act was designed to remove, (4) improperly authorizes District Courts to review the arbitral record to determine compliance with their Rule 12(b)(6) decisions, thereby undermining the finality of arbitration awards, and (5) improperly elevates form over substance and creates distinctions which are not supportable under the Federal Arbitration Act.

1. The Second Circuit's Decision Contravenes Decisions of this Court which Prohibit Judicial Intrusion into the Merits of Arbitrable Controversies.

The Second Circuit's decision contravenes longstanding decisions of this Court which prohibit judicial intrusion into the merits of arbitrable controversies. The Second Circuit authorized District Courts to make

determinations on the legal merits of arbitrable controversies while deciding Rule 12(b)(6) motions. The Second Circuit thus allowed that a Rule 12(b)(6) "motion [may gain] dismissal of a totally needless and unmeritorious claim." A.17; 754 F.2d at 465. The Second Circuit further held that the District Courts should filter those claims which lack facial merit and that:

> by eliminating some of the claims as a matter of law the role of the arbitrator might be made more simple, because the arbitrator would then be able to concentrate or focus solely on claims that have facial merit.

A.19; 754 F.2d at 465. But this judicial involvement in arbitrable claims is expressly prohibited by this Court's decisions. In United Steelworkers of America v. American Mfg. Co., 363 U.S. 564 (1960), this Court separated the judicial and arbitral functions, holding that the facial merits of arbitrable

claims are for the arbitrators "irrespective of whether a court may deem them meritorious." 363 U.S. at 567. In language which applies to the present arbitration clause (A.5), this Court admonished that the facial merits of arbitrable controversies are clearly within the arbitral sphere:

> [T]he agreement is to submit all grievances to arbitration, not merely those that a court may deem to be meritorious. . . .
>
> The function of the court is very limited. . . . It is confined to ascertaining whether the party seeking arbitration is making a claim which on its face is governed by the [arbitration] contract. . . .
>
> The courts, therefore, have no business weighing the merits . . . [or] considering whether there is equity in a particular claim or determining whether there is particular language . . . which will support the claim. . . .
>
> When the judiciary undertakes to determine the [legal] merits of a grievance . . . it usurps a function which . . . is entrusted to the arbitration tribunal.

363 U.S. at 567-69.

The Second Circuit's decision contravenes United Steelworkers. The Second Circuit authorized District Courts to make decisions on the merits of arbitrable claims under Federal Civil Rule 12(b)(6). The Second Circuit thus designated these Rule 12(b)(6) issues as within the judicial sphere (A.17-19). But these are issues on the merits (Federated Department Stores v. Moitie, supra) which this Court clearly consigned to the arbitrators under United Steelworkers. The Second Circuit thus improperly expanded the judicial function into the arbitral sphere, in violation of United Steelworkers.

The reason for the Second Circuit's expansion of the judicial function is understandable but misguided. In the particular case at hand, the Second Circuit's expansion of the judicial function to include Rule 12(b)(6) issues

permitted the Second Circuit to hold that the present respondents' Rule 12(b)(6) motion was within the judicial sphere and thus did not amount to a waiver of arbitration. But this result in the present case comes at great cost to arbitration generally. The inclusion of Rule 12(b)(6) issues within the judicial sphere undermines the clear admonition of United Steelworkers that all issues relating to the merits are for the arbitrators, not the District Courts. The Second Circuit's decision, unless reversed, will stand as precedent for judicial involvement in the merits of arbitrable claims where United Steelworkers teaches the contrary.[2]

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[2]The present case which involves a judicial motion to dismiss on the merits, is distinguishable from cases where the judicial motions are not on the merits. Thus jurisdictional and venue motions, which do not go to the merits, do not preclude arbitration thereafter. See, e.g., Erving v. Virginia Squires Basketball Club, 468 F.2d 1064, 1068

2. The Second Circuit's Decision Improperly Permits Defendants to Engage in Forum Shopping and Forum Skipping between Judicial and Arbitral Forums on a Single Claim.

The Second Circuit's decision also contravenes the consistent judicial interest in preventing forum shopping. This is so in 2 respects. First, the seriatim-motion practice which the Second Circuit approved deprives plaintiffs of their ability to prevent forum shopping by defendants. Defendants may forum shop by seeking an arbitration forum after losing their Rule 12(b)(6) decisions in the District Courts. Plaintiffs may

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(2d Cir. 1972) (arbitration ordered after denial of jurisdictional and venue motion). Similarly, under certain State procedures, such as in New York, a pre-trial dismissal for want of a cause of action is not on the merits, N.Y.C.P.L.R. 5013, so that such a motion still permits arbitration thereafter. Haupt v. Rose, 265 N.Y. 108, 110, 191 N.E. 853, 854 (1934). Compare also Necchi Sewing Machine Sales Corp. v. Carl, 260 F.Supp. 665, 668 (S.D.N.Y. 1966) (prior Oklahoma dismissal motion "was confined to asking for a dismissal on jurisdictional grounds" and "did not . . . seek to contest the merits").

prevent this forum shopping by insisting on arbitration before there are judicial decisions going to the merits. But if defendants may make seriatim motions for dismissal and for arbitration, the plaintiff cannot prevent the defendant's forum shopping before a decision of the dismissal motion; the plaintiff is then still unaware of the defendants' prospective request for arbitration. Seriatim motions for dismissal and for arbitration thus deprive plaintiffs of their ability to prevent forum shopping by defendants.[3]

Secondly, under the Second Circuit's decision, seriatim motions for dismissal

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[3]In addition, the plaintiff's litigation of the dismissal motion is without consent to a possible resolution of issues in different forums. The defendant's concealment of its arbitration intentions has deprived the plaintiff of any notice which would form the basis of an informed consent to the possibility of a resolution in 2 separate forums.

and for arbitration enable a defendant to procure a dismissal on the merits in 2 separate forums while enabling the plaintiff to prevail in only one. The defendant may prevail on the merits in the District Court if the Rule 12(b)(6) motion is granted and may prevail on the merits in arbitration if the dismissal motion is denied. By contrast, the plaintiff may prevail on the merits only in arbitration: the granting of the Rule 12(b)(6) motion terminates the action on the merits, while the denial of the dismissal motion confronts the plaintiff with the defendant's back-up motion for arbitration. The Second Circuit's approval of seriatim motions thus prejudices plaintiffs by limiting plaintiffs to a victory on the merits in only 1 of 2 forums in which the defendants may prevail.

The First Circuit has recognized the

dangers of forum shopping inherent in an untimely transfer to arbitration:

> [T]o require that parties go to arbitration despite their having advanced so far in court proceedings before seeking arbitration would often be unfair, for it would effectively allow a party sensing an adverse court decision a second chance in another forum.

Jones Motor Co. v. Chauffers, Teamsters, Etc., 671 F.2d 38, 43 (1st Cir. 1982). These fundamental concerns against forum shopping warrant expression here.[4]

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[4]The present case -- where the same party makes seriatim motions for dismissal and for arbitration -- is distinguishable from cases where different parties seek arbitration and dismissal. Where different parties seek arbitration and dismissal, there is no improper forum shopping. Compare Weight Watchers of Quebec, Ltd. v. Weight Watchers International, Inc., 398 F.Supp. 1057, 1061 n.7 (E.D.N.Y. 1975) (distinguishing cases where the parties seeking dismissal and arbitration are not the same); and Commercial Metals Co. v. International Union Marine Corp., 294 F.Supp. 570 (S.D.N.Y. 1968) (different parties seek dismissal and arbitration).

3. The Second Circuit's Decision Improperly Encourages Defendants to Seek Judicial Dismissals under Rule 12(b)(6) in Arbitrable Controversies and thus Improperly Imposes on the Judiciary an Added Burden which the Federal Arbitration Act Was Designed to Remove.

The Second Circuit's decision encourages unnecessary Rule 12(b)(6) motions in otherwise arbitrable cases. If the making of a Rule 12(b)(6) motion does not constitute a waiver of arbitration, then defendants will be encouraged to defer seeking arbitration and instead will seek at the outset Rule 12(b)(6) dismissals without mention of arbitration. The defendants will have every incentive to pursue such a course, for a dismissal will gain a victory on the merits, while the denial of dismissal will enable defendants to seek arbitration in a back-up motion. Thus in innumerable arbitrable cases, District Courts will confront and must resolve

Rule 12(b)(6) motions prior to the defendants' mention of arbitration.

This will impose needlessly and substantially on the judiciary regardless of the disposition of the Rule 12(b)(6) motion. If the District Court denies the motion, the judicial expenditure of time in resolving the motion will have been unnecessary, as the case then will proceed to arbitration where the grounds for dismissal could have been asserted in the first place. If the District Court grants the motion, the judicial expenditure of time on the dismissal motion still will have been unnecessary, as the dismissal grounds could have been asserted in arbitration. Worse yet, the District Court's granting of the Rule 12(b)(6) motion will be a final order and will avail the plaintiff of an appeal to a Court of Appeals, thereby involving the Courts of Appeals also in the resolution

of dismissal motions whose grounds were available in arbitration in the first place. Moreover, neither the Court of Appeals nor the District Court will be aware that a back-up arbitration motion lurks behind the defendants' Rule 12(b)(6) motion while the District Court and Court of Appeals spend valuable time resolving the Rule 12(b)(6) motion.

The Second Circuit failed to appreciate the anti-arbitration incentives of its decision. The Second Circuit appears to have assumed that seriatim motions for dismissal and for arbitration will not occur. But the dearth of seriatim motions in the past is not an indication of their continued absence in the future. Heretofore, other defendants have not made seriatim motions for dismissal on the merits and then for arbitration, out of fear that seriatim motions would constitute a waiver of arbitration after

first seeking a dismissal on the merits. Thus the standard practice of defendants has been to seek arbitration simultaneously with a motion to dismiss on the merits. See, e.g., Furman v. Cirrito, 741 F.2d 524, 533 (2d Cir. 1984) (simultaneous motions for dismissal under Rule 12(b)(6) or for arbitration); Lubrizol International, S.A. v. M/V Stolt Argobay, 562 F.Supp. 565, 570-71 (S.D.N.Y. 1982) (simultaneous motions for summary judgment or for arbitration); Mullis v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 492 F.Supp. 1345, 1361 (D.Nev. 1980) (simultaneous motions for dismissal under Rule 12(b)(6) or for arbitration); Gateway Associates, Inc. v. Essex-Costello, Inc., 380 F.Supp. 1089, 1096 (N.D.Ill. 1974) (same); Lumberman's Mutual Casualty Co. v. Borden Co., 268 F.Supp. 303, 314 (S.D.N.Y. 1967) (simultaneous motions for summary

judgment or for arbitration).

This existing practice of simultaneous arbitration/dismissal motions has several benefits. It enables the District Courts to save time by resolving the arbitration motion first. By contrast, seriatim motions compel the District Courts to resolve first the motion to dismiss because the District Court is yet unaware that the defendants will seek arbitration. The existing practice of simultaneous motions also protects the defendants' arbitration interests and encourages defendants to seek arbitration over litigation.

But if the Second Circuit's decision is permitted to stand, these benefits will be lost. Defendants in otherwise arbitrable cases will have every incentive to seek Rule 12(b)(6) dismissals at the outset and to make seriatim motions under the Second Circuit's express

assurance that arbitration-waiver does not attach to that practice. Seriatim motions then will become the norm, with their incentive to litigate first, entailing undue imposition upon limited judicial resources in both the District Courts and Courts of Appeals.

The Second Circuit's failure to recognize the anti-arbitration incentives of its decision reflects its failure to employ a broader perspective of litigation incentives of the type used by this Court in Parklane Hosiery Co. v. Shore, 439 U.S. 322 (1979). Although Parklane Hosiery did not involve arbitration, it is instructive for its analysis of litigation incentives. In Parklane Hosiery this Court declined to adopt a per se rule for the use of offensive collateral estoppel, even though use of collateral estoppel appeared to have short-term benefits for judicial economy.

This Court instead employed a broader perspective on the litigation incentives created by offensive collateral estoppel and held that its broader disincentives to judicial economy precluded its general use. 439 U.S. at 329-30. In the present case, the Second Circuit failed to employ this broader perspective on the litigation incentives inherent in permitting Rule 12(b)(6) motions to be made without waiver of arbitration. Instead, the Second Circuit allowed arbitration to proceed here by focusing upon the short-term result in the present case rather than upon the broad anti-arbitration incentives generated by its holding.

4. The Second Circuit's Decision Improperly Authorizes District Courts to Review the Arbitral Record to Determine Compliance with Their Rule 12(b)(6) Decisions, Thereby Undermining the Finality of Arbitration Awards.

The Second Circuit's decision also confronts the District Courts with an improper dilemma and may involve the District Courts improperly in the arbitration process when the arbitration award returns to the District Court for confirmation. Disputes are likely to arise over the arbitrators' compliance with the District Court's ruling on the Rule 12(b)(6) motion. The District Court then would confront an unenviable dilemma: On the one hand, the District Court could review the arbitral record to determine compliance with its Rule 12(b)(6) decision, but this option would undermine the finality of arbitral decisions. On the other hand, the

District Court could enforce the arbitrators' award automatically, but this option would leave the District Court in the unseemly position of being unable to enforce its own Rule 12(b)(6) ruling in the very same case in which the ruling was rendered. Neither alternative should be acceptable.

A reversal of the Second Circuit's decision will remove this dilemma by removing the necessity for District Courts to resolve dismissal motions prior to arbitration motions. A reversal here would preclude defendants from seeking arbitration after denial of their Rule 12(b)(6) motions on the merits and thus will free District Courts from the dilemma of choosing between arbitral review or inability to enforce their own Rule 12(b)(6) decisions.

5. The Second Circuit's Decision Improperly Elevates Form over Substance and Creates Distinctions which Are Not Supportable under the Federal Arbitration Act.

Finally, the Second Circuit's decision improperly elevates form over substance and creates distinctions which are not supportable under the Federal Arbitration Act. The Second Circuit held that Rule 56 motions for summary judgment constitute waivers of arbitration but that Rule 12(b)(6) motions do not (A.17-18; 754 F.2d at 465). But this distinction between Rules 12(b)(6) and 56 makes no sense for purposes of arbitration waiver. This is so for 4 separate reasons.

First, dismissals under both Rules 12(b)(6) and 56 have exactly the same effect. Dismissals under both rules are "on the merits" with a full res judicata bar. Federated Department Stores v.

Moitie, supra, 452 U.S. at 399 n.3 (1981). Secondly, the grounds for dismissal under both rules may be the same. See, e.g., Schwartz v. Compagnie General Transatlantique, 405 F.2d 270, 273 (2d Cir. 1968) ("a trial judge may dismiss for failure to state a cause of action upon motion for summary judgment"). Thirdly, the denials of dismissal motions under both rules may establish important principles governing the further progress of the case.[5] And fourth, dismissal motions under both rules may determine the legal sufficiency of relevant documents: Under Rule 12(b)(6), documents which are attached to the complaint are considered as part of the

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[5]In the present case the District Court's denial of the respondents' Rule 12(b)(6) motion established the applicability of the Lanham Act and various New York common law doctrines to the petitioner's source-reference claims (pp. 9-10, supra).

complaint for all purposes, Rule 10(c), Fed.R.Civ.P., and may result in dismissal on the merits if legally insufficient. Tenopir v. State Farm Mutual Co., 403 F.2d 533 (9th Cir. 1968) (substance of document annexed to complaint required dismissal under Rule 12(b)(6)). If the same documents are attached to an affidavit instead of the complaint, the same dismissal obtains but under Rule 56 instead of Rule 12(b)(6).

The opportunity for review of the same documents under both Rules 12(b)(6) and 56 highlights the absurdity of creating substantive distinctions between Rules 12(b)(6) and 56 for purposes of arbitration waiver. Under the decision of the Second Circuit which finds no arbitration waiver under Rule 12(b)(6), the judicial review of exhibits which are attached to the complaint does not amount to a waiver of arbitration. But if the

same exhibits are attached instead to an affidavit under Rule 56, the judicial review thereof would, according to the Second Circuit, amount to a waiver (A.17-18; 754 F.2d at 465). The substantive right to arbitration -- and its waiver -- simply should not depend upon the clerical formalities of stapling an exhibit to the complaint rather than an affidavit. Neither the Federal Rules nor the Federal Arbitration Act was intended to elevate these clerical distinctions in exhibit-stapling to the level of arbitration waiver.

CONCLUSION

For the foregoing reasons, this Court should grant the petition for a writ of certiorari and should reverse the decision of the United States Court of Appeals for the Second Circuit.

Dated: New York, New York
April 29, 1985

Respectfully submitted,

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APPENDIX

APPENDIX A
OPINION OF THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 477 — August Term, 1984

(Argued: November 9, 1984 Decided: February 6, 1985)

Docket No. 84-7755

SWEATER BEE BY BANFF, LTD.,
Plaintiff-Appellant,

—v.—

MANHATTAN INDUSTRIES, INC. and
BAYARD SHIRT CORPORATION,
Defendants-Appellees, and

DON SOPHISTICATES, INC. and HERBERT ROUNICK,
Defendants.

Before:

KAUFMAN, OAKES and NEWMAN, *Circuit Judges.*

Appeal from an order of the United States District Court for the Southern District of New York, Vincent L. Broderick, *Judge*, staying claims pending arbitration, denying plaintiff's motion for leave to amend its complaint, and referring plaintiff's claim of civil contempt to a master.

Held: (1) Filing motion to dismiss pursuant to Fed. R. Civ. P. 12(b)(6) did not constitute waiver of right

to seek arbitration of arbitrable claims under an uncontested provision of a consent judgment, where plaintiff was not prejudiced and where complaint alleged numerous, overlapping claims unrelated to arbitrable claims so that motion to dismiss was reasonable response; (2) the exercise of pendent appellate jurisdiction over claims unrelated to plaintiff's waiver of arbitration claim is inappropriate.

Order affirmed in part; appeal dismissed in part. Costs to appellees.

Dennis Grossman, New York, NY (Eileen King, New York, NY, Neil S. Kramer, New York, NY, of counsel), *for Plaintiff-Appellant.*

Thomas J. Sweeney, III, New York, NY (Cynthia A. Feigin, Davis, Markel, Dwyer & Edwards, New York, NY, Paul Fields, McAulay, Fields, Fisher, Goldstein & Nissen, New York, NY, of counsel), *for Defendants-Appellees.*

OAKES, *Circuit Judge:*

Sweater Bee by Banff, Ltd. ("Sweater Bee"), and the Manhattan Industries, Inc., defendants ("Manhattan") have been in litigation over the trademark "Kimberly" on women's apparel practically since the day that the former owner of that mark formally abandoned it. The litigation first reached this court in *Manhattan Industries, Inc.* v. *Sweater Bee by Banff, Ltd.*, 627 F.2d 628 (2d Cir. 1980). There the court gave both sides the right to the use of the Kimberly mark, provided that the

labels were sufficiently distinct so as to permit purchasers of high quality women's clothing to distinguish Manhattan's Kimberly goods from Sweater Bee's Kimberly goods. After remand, the parties entered into a consent order incorporated into a judgment of the United States District Court for the Southern District of New York, Vincent L. Broderick, Judge, (the "consent judgment"). Under the consent judgment, each of the parties obtained the right to use the Kimberly trademark or tradename in connection with the sale, distribution, and advertising of women's wearing apparel and all advertising material, brochures, labels, envelopes, business cards, and the like, but only when accompanied by a source reference, which "shall include the word 'by' immediately followed by the name, tradename or recognizable abbreviated name of the source," e.g., "Kimberly by Sweater Bee," "Kimberly by Manhattan." The consent judgment provided that "[a]ll disputes under or arising out of this judgment . . . shall be resolved by an arbitration panel whose determination shall be final and binding." However, each party was nevertheless entitled to apply to the district court for the enforcement of any provision of the judgment as well as for the enforcement of any decision of an arbitration panel.

Alleging that Manhattan had procured its concurrent rights of ownership in the Kimberly trademark and tradename by perjury and fraud (which fraud became apparent after the prior appeal was determined), and that, notwithstanding the consent judgment, Manhattan had in numerous respects violated the source-reference requirements of the consent judgment, Sweater Bee filed a complaint in federal district court on June 26, 1981, amended on March 24, 1982. The amended complaint alleged seventeen antitrust claims, four false-

designation-of-origin claims under 15 U.S.C. § 1125(a) (1982), two federal common law claims, several pendent state law claims, and a claim for conditional vacatur of certain findings of fact concerning Don Sophisticates[1] in the trademark action. On April 27, 1982, Manhattan filed a motion under Fed. R. Civ. P. 12(b)(6) to dismiss the amended complaint for failure to state a claim for relief, for failure to satisfy the pleading requirements of the Federal Rules of Civil Procedure, for plaintiff's lack of standing, and because the claims were barred by res judicata and Fed. R. Civ. P. 60(b). The motion to dismiss was denied by order dated October 18, 1982, in all respects except as to the following claims: Claims 22 and 23, which were based on federal common law; so much of Claim 25 as pleads an action in interference with contract; so much of Claim 26 as pleads an action in abuse of process; and all of Claim 28, which would have vacated certain findings of fact in the trademark action. Claims 5, 10, 15, 21, and so much of Claim 25 as pleads a cause of action in prima facie tort were voluntarily withdrawn by Sweater Bee, and the court dismissed them as well. The court denied Manhattan's motion for reargument of the denial of its motion to dismiss on December 1, 1983.

On December 16, 1983, Sweater Bee filed a motion for a judgment of criminal contempt against Manhattan; for leave to file a second amended complaint that would add additional source-reference allegations, a claim for civil contempt, and a claim for RICO violations; and for partial summary judgment on the civil contempt claim. On December 30, 1983, Manhattan served its answer to the first amended complaint and raised certain counter-

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[1] Neither Don Sophisticates, Inc., nor Herbert Rounick is involved in this appeal.

claims. The seventh defense of the answer was that Sweater Bee's claims relating to Manhattan's conduct subsequent to the completion of the prior trademark litigation could not be brought because the judgment provided for arbitration of "[a]ll disputes under or arising out of this judgment," making all alleged violations of the judgment subject to arbitration. In a letter to Judge Broderick dated January 20, 1984, Manhattan enclosed a notice of intent to arbitrate, pursuant to the consent judgment which followed on remand from *Manhattan Industries, Inc.* v. *Sweater Bee by Banff, Ltd., supra*, and to seek a stay pending arbitration of all source-reference claims made in the first amended complaint and the proposed second amended complaint. Manhattan subsequently filed a notice of cross-motion seeking arbitration and a stay pending arbitration on June 26, 1983.

On August 23, 1984, the district court granted Manhattan's cross-motion in part, compelling arbitration and staying plaintiff's source-reference claims as alleged in Counts 16 through 20, 24, 25, and 27 of the proposed second amended complaint. The court held that Sweater Bee's civil contempt claim was more appropriately treated as an application under the previous action, *Manhattan Industries, Inc.* v. *Sweater Bee by Banff, Ltd., supra*, over which the court retained jurisdiction. Consequently, the court denied Sweater Bee's motions for leave to add the civil contempt claim to the proposed second amended complaint and for partial summary judgment as to liability for civil contempt. It placed Sweater Bee's motion for prompt trial of the charges of criminal contempt and for appointment of counsel to prosecute the charges of criminal contempt on suspense, and referred the issues relating to civil contempt to a master, each side to pay one-half the master's fees with the ultimate responsibility

therefor to abide the event. Sweater Bee's motion to add RICO claims was denied, but its motion to add allegations of additional source-reference violations in the proposed second amended complaint was granted.

Only with the rather complex history of this multi-faceted litigation thus outlined is it possible to state the primary question before this court on Sweater Bee's appeal: has Manhattan waived arbitration by its conduct in this litigation in seeking arbitration only after obtaining a ruling on its Rule 12(b)(6) motion to dismiss? We note parenthetically that neither party claims that the ruling that frames this issue is not appealable; we agree for reasons set out in the margin.[2] The other issue con-

[2] The order staying proceedings pending arbitration of the source-reference claims is appealable. The controlling principles are set forth in *Poriss* v. *Aaacon Auto Transp., Inc.*, 685 F.2d 56, 59 (2d Cir. 1982), and sources cited therein. Orders compelling arbitration in an ongoing lawsuit are not appealable as final orders under 28 U.S.C. § 1291 (1982), because they do not fall within the "collateral order" exception of *Cohen* v. *Beneficial Indus. Loan Corp.*, 337 U.S. 541, 546 (1949). Such orders are, however, appealable under 28 U.S.C. § 1292(a)(1) as interlocutory orders granting or refusing an injunction, under the following conditions: (1) the action in which the order was made must be an action at law, as defined before the fusion of law and equity; *and* (2) arbitration is sought to permit the prior determination of some equitable defense to that action. *See Diematic Mfg. Corp.* v. *Packaging Indus., Inc.*, 516 F.2d 975, 977-78 (2d Cir.), *cert. denied*, 423 U.S. 913 (1975); *Standard Chlorine, Inc.* v. *Leonard*, 384 F.2d 304, 308 (2d Cir. 1967). Where the action presents claims seeking both equitable and legal relief, the arbitration order is not appealable, unless the equitable relief sought is "merely incidental." *See Aaacon*, 685 F.2d at 59; *Diematic*, 516 F.2d at 978-79. A defense that relies upon a prior agreement to arbitrate is an equitable defense. *See id.* at 977 n.1 (following *Shanferoke Coal & Supply Corp.* v. *Westchester Serv. Corp.*, 293 U.S. 449, 452 (1935)).

In this case, Manhattan's motion for a stay pending arbitration of the source-reference claims is clearly one made in the course of an ongoing suit. The arbitrable source-reference claims are only some of the many claims Sweater Bee advances.

[Footnote continued on following page]

cerns whether the exercise of pendent appellate jurisdiction is appropriate in connection with the denial of Sweater Bee's motion to add civil contempt to the tort theories under which the source-reference allegations were being litigated, the denial of its motion for partial summary judgment as to liability for civil contempt, and the reference of the civil contempt claim to a master.

DISCUSSION

The principal issue on appeal involves waiver of arbitration by virtue of the Rule 12(b)(6) motion to dismiss. Sweater Bee claims that during the process of this litigation Manhattan has continued and expanded its source-reference contempts, by using an illegal telephone listing, an illegal lobby directory listing, shipping some 13,000 pieces of clothing apparel under the trademark Kimberly without the source reference, and omitting the source reference from trade show catalogs, invoices and purchase orders, much of which Sweater Bee claims to have discovered after filing the first amended complaint. The argument is that, while Manhattan eventually complied with the source-reference injunction, it was only after three years and litigation-gunpoint compliance. And, it is argued, for some two years Manhattan vigorously litigated issues going to the merits without mentioning or seeking arbitration or reference to a master. Manhattan is said now to benefit not only from the res judicata effect of the partial dismissal it obtained but also in

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[Footnote continued from previous page]

Furthermore, the two conditions required for appealability under 28 U.S.C. § 1292(a)(1) are met. First, the action in which the motion was made is an action at law—Sweater Bee is seeking only damages relief. Second, Manhattan's motion to compel arbitration is equitable in nature, since it relies upon the arbitration provision set forth in the consent judgment.

having litigated the applicability of the Lanham Act, 15 U.S.C. § 1125(a), several common law theories and punitive damages to the source-reference violations. Sweater Bee claims that two discovery motions, one of which was initiated by Manhattan, were also litigated,[3] resulting in Manhattan's production of approximately 6,000 pages of documents; and that Manhattan made at least five express representations on the record in the district court to the continued availability of a judicial forum upon which Sweater Bee "relied." The argument is that, by obtaining a judicial decision on the merits before seeking arbitration, a party is allowed two forums; a defendant failing to persuade a court that a plaintiff has not stated a claim on which relief can be granted would in effect be given a second chance in another forum. *See Jones Motor Co.* v. *Chauffeurs, Local Union No. 633*, 671 F.2d 38, 44 (1st Cir.) (waiver established as matter of law where defendant answers complaint, engages in considerable discovery, files motion for summary judgment, and waits until court decides sua sponte that matter should be referred to arbitration), *cert. denied*, 459 U.S. 943 (1982).

The rule of this circuit, like that in *Jones*, is that the litigation of substantial issues going to the merits may constitute a waiver of arbitration. *See Demsey & Associates, Inc.* v. *S.S. Sea Star*, 461 F.2d 1009, 1017-18 (2d Cir. 1972) (failure to seek stay pending arbitration until after judicial trial on the merits amounts to waiver); *see also Weight Watchers, Ltd.* v. *Weight Watchers International, Inc.*, 398 F. Supp. 1057, 1058-62 (E.D. N.Y. 1975) (defendant's motion for summary judgment

[3] We note, however, that Manhattan denies moving for discovery, and that the record reflects only litigation pursuant to Sweater Bee's motion to compel discovery, filed May 11, 1983.

and failure to mention or request arbitration for two years is waiver of arbitration).

Manhattan contends, on the other hand, that no waiver can ordinarily be found where a party raises arbitration in its answer and moves promptly for a stay. Concededly, it did so here, even though over two years elapsed from the initial time of the complaint to the filing of the answer, with all the accompanying preliminary procedural moves having been made by both parties. In *Erving* v. *Virginia Squires Basketball Club*, 468 F.2d 1064, 1068 (2d Cir. 1972), this court held that it was not a waiver—indeed it was "just the opposite" with respect to a defendant who not only asserted the arbitration clause of the contract in his answer as a defense but who additionally commenced an action in another federal court asserting a right to arbitration and injunctive relief. In *Carcich* v. *Rederi A/B Nordie*, 389 F.2d 692 (2d Cir. 1968), the court said that

> [a]s an abstract exercise in logic it may appear that it is inconsistent for a party to participate in a lawsuit for breach of a contract, and later to ask the court to stay that litigation pending arbitration. Yet the law is clear that such participation, standing alone, does not constitute a waiver.

Id. at 696 (citations omitted). In view of the "overriding federal policy favoring arbitration," waiver "is not to be lightly inferred, and mere delay in seeking a stay of the proceedings without some resultant prejudice to a party . . . cannot carry the day." *Id.* (footnotes and citation omitted); *see also Moses H. Cone Memorial Hospital* v. *Mercury Construction Corp.*, 460 U.S. 1, 24 (1983) ("questions of arbitrability must be addressed with a healthy regard for the federal policy favoring

arbitration"). As the Court said in *Moses H. Cone Memorial Hospital*,

> The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability.

460 U.S. at 24-25. In *Carcich*, 389 F.2d at 694, a third-party defendant filed an answer to a counterclaim, the answer alleging that the claim should be submitted to arbitration in accordance with the terms of a charter party. This court found no waiver despite the fact that the party insisting on arbitration had not moved for a stay for nearly two years while the principal suit by the longshoreman against the shipowner was litigated. Judge Kaufman stated, *id.* at 696, that the case followed a fortiori from the then leading case in the circuit, *Kulukundis Shipping Co.* v. *Amtorg Trading Corp.*, 126 F.2d 978 (2d Cir. 1942), in which a libel had been filed for breach of a charter party and the respondent's answer made no mention whatsoever of an arbitration clause in the charter party but contended instead that the respondent was not bound because the charter party had been improperly executed. A pretrial order had been filed, and it was not until the respondent sought to amend its answer when the case was already on the Ready Day Calendar that the first mention of arbitration came. This court held, in an exhaustive opinion by Judge Jerome Frank, that an alternative pleading in the answer, made by amendment thereto, that there should be a stay pending arbitration, did not constitute waiver or, as Judge Frank put it more precisely, "repudiation" of the agreement to arbitrate. *Id.* at 988-92. The case at bar also

follows a fortiori from *Kulukundis*, its time element being similar to *Carcich*.

Two other Second Circuit cases are particularly instructive. In *Chatham Shipping Co.* v. *Fertex Steamship Corp.*, 352 F.2d 291 (2d Cir. 1965), a case that Judge Friendly described as involving "a Pickwickian series of moves that has already accumulated more than two printed pages of docket entries without any approach to the merits," *id.* at 293, the respondent claimed waiver on the basis of libelant's mere filing of an action for damages on the contract, which contained the arbitration clause. The court held that "the earliest point at which such preclusion may be found is when the other party files an answer on the merits." *Id.* at 293. And in *Robert Lawrence Co.* v. *Devonshire Fabrics, Inc.*, 271 F.2d 402, 412-13 (2d Cir. 1959), *cert. dismissed*, 364 U.S. 801 (1960), the court held that there was no waiver by a defendant where the answer filed demanded arbitration although no motion for a stay was made until some nine months later, during which time settlement was discussed and the defendant consented to an examination before trial of its president—an examination that was adjourned repeatedly —but during which time the plaintiff released otherwise unavailable information to the defendant and the defendant was permitted to test the disputed goods. Referring again to *Kulukundis*, the court said that "considerably more significant intervening steps have not been regarded as amounting to a waiver," *id.* at 413, and distinguished cases, such as *American Locomotive Co.* v. *Chemical Research Corp.*, 171 F.2d 115 (6th Cir. 1948), *cert. denied*, 336 U.S. 909 (1949), where waiver has been found because the parties seeking arbitration generally had brought up the subject only after long delay or when the trial was near at hand. *See also Clar Productions, Ltd.*

v. *Isram Motion Pictures Productions Services, Inc.*, 529 F. Supp. 381, 383 (S.D.N.Y. 1982) (Pollack, J.) (no waiver though right to arbitration not raised until seven months after complaint was filed but before discovery or response on merits).

But Sweater Bee advances the proposition that the motion to dismiss was a motion to dismiss on the merits with a full res judicata bar, and as we held in *Teltronics Services, Inc.* v. *L M Ericsson Telecommunications, Inc.*, 642 F.2d 31 (2d Cir.), *cert. denied*, 452 U.S. 960 (1981), " 'judgments under rule 12(b)(6) are on the merits, with *res judicata* effects.' " *Id.* at 34 (quoting *Exchange National Bank* v. *Touche Ross & Co.*, 544 F.2d 1126, 1130-31 (2d Cir. 1976)); *see also Federated Department Stores, Inc.* v. *Moitie*, 452 U.S. 394, 399 n.3 (1981) (dismissal under Rule 12(b)(6) is a judgment on merits); Fed. R. Civ. P. 41(b) ("Unless the court in its order for dismissal otherwise specifies," a Rule 12(b)(6) dismissal "operates as an adjudication upon the merits."). Manhattan's dismissal motion did in fact, Sweater Bee's argument runs, result in a partial dismissal with a res judicata bar on the plaintiff's claim for interference with contractual relations. Sweater Bee also points to the applicability of the Lanham Act and New York common law under the district court's ruling in its favor, thereby entitling it to a full accounting upon a showing of willfulness. *See W. E. Bassett Co.* v. *Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970). Sweater Bee further argues that the district court determined the applicability of the source-reference injunction in the consent judgment by sustaining Sweater Bee's allegations that the injunction applied to the various media on which Sweater Bee alleged the defendants' contempts were made. Finally, Sweater Bee adds that, in this case, the district court

necessarily addressed important factual issues in its memorandum order because its complaint contained documentary exhibits which became part of the complaint for all purposes under Fed. R. Civ. P. 10(c). *Cf. Tenopir* v. *State Farm Mutual Co.*, 403 F.2d 533, 535 (9th Cir. 1968) (substance of insurance policy annexed to complaint required dismissal under Rule 12(b)(6)); the district court's sustaining of the source-reference claims is thus said necessarily to have sustained the factual sufficiency of the plaintiff's exhibits.

Manhattan, however, argues that of the twenty-eight claims in Sweater Bee's amended complaint most were nonarbitrable, being either federal antitrust claims or claims related to allegations of fraud in the previous trademark action, or both. In fact, Sweater Bee's amended complaint states seventeen counts alleging federal antitrust claims and nineteen claims alleging fraud in the previous trademark action. Five of the eight claims ultimately referred to arbitration and stayed are nonarbitrable antitrust claims containing arbitrable source-reference allegations underlying the claims. Only one arbitrable claim—alleging interference with contractual relations—was dismissed by the court as a result of Manhattan's motion to dismiss. Plainly, the portions of the motion addressed to nonarbitrable claims do not constitute a waiver. *See American Broadcasting Companies* v. *Ali*, 434 F. Supp. 1108, 1112 (S.D.N.Y.), *aff'd*, 573 F.2d 1287 (2d Cir. 1977). And where, as here, a plaintiff files an intricate complaint, setting forth numerous claims outside the scope of, though partially related to, the arbitrable claims, he should not be altogether surprised that a defendant takes the protective step of filing a motion to dismiss, specifically permitted by Fed. R. Civ. P. 12(b) to be filed before answer.

Moreover, the rule of *Carcich* is that delay in seeking arbitration does not constitute a waiver absent prejudice to the opposing party. 389 F.2d at 696; *see also ITT World Communications, Inc.* v. *Communications Workers*, 422 F.2d 77, 82-83 (2d Cir. 1970) (*Carcich* rule applies to labor as well as commercial disputes); *Lubrizol International, S.A.* v. *M/V Stolt Argobay*, 562 F. Supp. 565, 572-73 (S.D.N.Y. 1982) (*Carcich* rule requires arbitration even though defendant moved for summary judgment). The district court's rulings on the Rule 12(b)(6) motion favorable to Sweater Bee surely cannot be to Sweater Bee's disadvantage. The only ruling on the merits of an arbitrable claim favorable to Manhattan was that dismissing the claim alleging interference with contractual relations. But this claim was at best frivolous; Sweater Bee knew or should have known that such a claim requires an actual and existing contract and knowledge of that contract, neither of which conditions were alleged here. Nor are we persuaded by Sweater Bee's argument that arbitration would be prejudicial because an award of punitive damages would be foreclosed that might otherwise be forthcoming from the district court; in at least this respect, Sweater Bee is no worse off proceeding now to arbitration than had Manhattan moved for arbitration immediately after being served with the amended complaint. We have already held that there cannot be prejudice stemming merely from delay. *ITT World Communications, supra; Carcich, supra; Kulukundis, supra.* And here the only delay was the time necessary for the Rule 12(b)(6) original motion and reargument motion to be made, briefed, and decided.

In a somewhat strained effort, Sweater Bee seeks to put this case into the framework of *Ohio-Sealy Mattress Manufacturing Co.* v. *Kaplan*, 712 F.2d 270 (7th Cir.), *cert. denied*, 104 S. Ct. 509 (1983), where, it is

true, the plaintiff was held to have sustained its "heavy burden," *id.* at 273, to prove waiver. There, the plaintiff repeatedly offered to the other party "to have the matter resolved by litigation or arbitration whenever you so choose," *id.* at 271, and the opposing party chose to litigate, filing an answer and counterclaim soon after a stay was lifted, followed by extensive pretrial activities with the expenditure of considerable time and money on extensive discovery, document production, and briefing on the merits of the principal question involved, namely the amount of royalties required. The waiving party was said to have acquiesced in the other's choice of litigation and therefore could not "have it both ways." *Id.* at 273. Such is not the case here, though during litigation of the discovery motion in May, 1983, Manhattan is said to have made five representations on the record that the plaintiff could prosecute and take discovery on the Lanham Act and common law claims after resolution of the motions for reargument of the dismissal motions. These are set out in the margin;[4] however, as the ital-

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[4] The five are as follows (emphasis added):

1. The relevant documentation and the persons with the knowledge of the facts will be available to Plaintiff during discovery, *if necessary*—but only after Defendants' pending motions for reargument [of their dismissal motion] have been decided by the Court.

2. Plaintiff has offered no convincing reason why discovery in this matter should not await the Court's ruling on our [the defendants'] motion for reargument.

3. [A]s the affidavits submitted with this memorandum show, we have identified certain persons knowledgeable about the facts and those persons will be available to Plaintiff for deposition *at an appropriate time and place.*

4. [Plaintiff] offers no valid reason . . . why all parties' discovery should not await resolution of the motions for reargument.

5. That's all we [the defendants Manhattan-Bayard] are asking the Court to withhold at the present time, because otherwise it's going to mean piecemeal discovery now *and again later.*

icized material suggests, some are conditional statements designed to assure the court that evidence was not being lost, while others quite properly and prudently suggest that discovery be delayed in a wide-ranging case until the Rule 12(b)(6) motion is fully decided. This case is thus dramatically different from the unconditional offer to "arbitrate or litigate" in the *Ohio-Sealy* case. Beyond this, Sweater Bee not only will be able to use in the arbitration whatever discovery it has, but will be granted appropriate discovery in the contempt proceedings that have been referred to the master, which so far as appears may also be used in the arbitration. This surely cannot amount to prejudice.

Sweater Bee suggests in its reply brief, however, that while there may have been no prejudice in fact there is prejudice in law in Manhattan's being able to "forum shop" after the district court resolved issues going to the merits of Sweater Bee's claims. Prejudice is said to have occurred somehow by virtue of the district court's dismissal of the claim for interference with contractual relations (whether the ruling was right or wrong) and in Manhattan's mere attempt to transfer the source-reference claims to a second forum, and this prejudice is said to affect the claims that were not dismissed. Substantial policy considerations are said to support this "forum shopping" or "forum skipping" claim of prejudice; if able to file a Rule 12(b)(6) motion for dismissal and later file a request for arbitration, a defendant would deprive the plaintiff of notice of the defendant's arbitration intentions so that, for example, a plaintiff could not himself request arbitration prior to a judicial resolution of the dismissal motion. A defendant would in effect be able to procure dismissal on the merits in two separate forums while a plaintiff could prevail in

only one. We note, however, that this is not exactly what can be called severe prejudice, since presumably all that the plaintiff could do on learning of defendant's intention to seek arbitration at the time defendant filed a motion to dismiss under Rule 12(b)(6) is himself seek the arbitration that Sweater Bee now wishes to avoid. At that time, both parties could only speculate not only as to how the court might resolve the claims,[5] but also as to whether the court will choose to resolve any claims at all. The "prejudice" is highly speculative, if not illusory.

But with a neverending supply of arrows from its quiver, Sweater Bee advanced at oral argument the position that an affirmance of the district court's order compelling arbitration will disserve judicial economy, surely a rather surprising thought for those who have followed the arbitration versus litigation arguments of the last several decades. First, it is said that an affirmance will encourage unnecessary Rule 12(b)(6) motions in otherwise arbitrable cases. We see no signs of this, nor do we think it will take place. The case law is broadly and clearly to the effect that on a Rule 12(b)(6) motion, where matters outside the pleading are *not* presented to the court, the complaint must be construed in the most favorable light to the plaintiff. *See, e.g., Scheuer* v. *Rhodes*, 416 U.S. 232, 236-37 (1974); *Jones-Bey* v. *Caso*, 535 F.2d 1360, 1362 (2d Cir. 1976). Thus, the most to be gained from such a motion is dismissal of a totally needless and unmeritorious claim. And if matters going outside the pleadings are presented to and not excluded by the court, the motion is, of course, treated as one for

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[5] Defendant, for example, cannot be assured that his motion will not result in waiver of arbitration, *see infra* at 1795-96.

summary judgment and disposed of as provided in Rule 56, at which point the effect would be to preclude any arbitration of the issue by virtue of waiver. *See Weight Watchers*, 398 F. Supp. at 1061. As the Advisory Committee's notes state, Rule 12(b)(6) is, after all, "substantially the same as the old demurrer for failure of a pleading to state a cause of action." Fed. R. Civ. P. 12 advisory committee note. A defendant, moreover, runs the risk that, even absent the initial submission of extraneous material, a district court may label the motion as one for summary judgment and dispose of it as such. *See* 5 C. Wright & A. Miller, *Federal Practice and Procedure* § 1357, at 607-08 (1969).

This point also disposes of a second argument—that upholding the district court will breed unnecessary litigation on the question whether a Rule 12(b)(6) motion should be treated as a Rule 56 motion pursuant to the last sentence of Rule 12(b). The defendant who files the Rule 12(b)(6) motion takes the risk.

Third, an affirmance here will not unduly burden the arbitration process with the task of interpreting and applying a district court's denial of a Rule 12(b)(6) motion. Such a task is currently borne whenever a district court decides a dismissal motion made simultaneously with an arbitration motion. The fact that a district court might have the option to refer a matter immediately to arbitration does not mean that it must exercise that option. *See, e.g., Dickinson* v. *Heinold Securities, Inc.*, 661 F.2d 638, 644 (7th Cir. 1981) (where nonarbitrable issues substantially permeate entire case, district court has discretion to stay arbitration pending judicial resolution of nonarbitrable issues) ; *Zemaitis* v. *Merrill Lynch, Pierce, Fenner & Smith*, 583 F. Supp. 1552, 1554-55 (W.D.N.Y.

1984) (where factual issues exist pertinent to both arbitrable and nonarbitrable claims, stay of arbitration pending adjudication of nonarbitrable claims is appropriate). Moreover, it is possible that by eliminating some of the claims as a matter of law the role of the arbitrator might be made more simple, because the arbitrator would then be able to concentrate or focus solely on claims that have facial merit.

Finally, it is said, not without some justification, that an affirmance here will create opportunities for additional litigation relative to an arbitrator's compliance with a district court's ruling on a Rule 12(b)(6) motion. For example, Sweater Bee contends, a district court would confront the dilemma of having to examine the arbitral record to determine compliance with its Rule 12(b)(6) decision, thereby either undermining the finality of arbitral decisions or, by enforcing the arbitrator's award automatically, potentially undermining its own Rule 12(b)(6) ruling. To the extent that either would occur, however, the problem is essentially the same in any matter referred to arbitration where the arbitral decree is thereafter litigated. Under present law, we are frequently required to adjudicate whether an arbitration award was based on a "manifest disregard of the law" when an award is sought to be vacated. *Sobel* v. *Hertz, Warner & Co.*, 469 F.2d 1211, 1213-14 (2d Cir. 1972); *Saxis Steamship Co.* v. *Multifacs International Traders, Inc.*, 375 F.2d 577, 582 (2d Cir. 1967).

Ultimately, the difficulty with Sweater Bee's position stems largely, we think, from the complexity of its complaint. Sweater Bee would have us decide the case as if all that it were complaining about were "source-reference claims." But, of course, that is not the situation here. Sweater Bee's principal claims that do not relate to source-

reference claims are many, various, and serious. The motion to stay for arbitration has no effect on them; they remain outstanding, untouched by the reference to arbitration of the source-reference claims. Confronted with such a complaint alleging almost thirty claims for relief, the defendant not surprisingly filed a motion to dismiss. Not a single case cited serves to have put Manhattan on notice that a defendant's failure to file a request for arbitration before answering would constitute a waiver of his conceded right to obtain arbitration in connection with the arbitrable claims advanced. By filing the motion, especially where the complaint had exhibits and other outside matters attached to and incorporated in it, the defendant ran the risk that it would be treated as a Rule 56 motion and in turn that it might not only lose on the merits but also lose the right thereafter to seek arbitration. In this case, Manhattan assumed the risk and avoided its hazards, but was almost totally unsuccessful on its motion to dismiss. Manhattan obtains no unfair advantage, therefore, from our finding that the assertion of the defense of arbitrability in its answer was all the notice to which Sweater Bee was entitled in view of its numerous and overlapping claims. Moreover, in view of those claims, whatever delay occurred from the time the complaint was filed to Manhattan's assertion of the arbitration defense in its answer was as much the fault of Sweater Bee as of Manhattan. We have little doubt that a district judge can recognize the tactics of delay or harassment that operate to prejudice the opposing party and to cause him expense, thereby justifying a finding of waiver. Finally, the party seeking such a finding—that his opponent has waived a conceded right to arbitration—has a "heavy burden" that we do not think Sweater Bee has met in the instant case.

The other claims made by Sweater Bee on appeal all would require the exercise of pendent appellate jurisdiction in the interests of judicial economy. None of them, however, are related to the primary appealable issue on the subject of waiver of arbitration. It is well settled in this circuit that pendent appellate jurisdiction is properly invoked only where "review of the appealable order will involve consideration of factors relevant to the otherwise nonappealable order[s]." *General Motors Corp.* v. *City of New York*, 501 F.2d 639, 648 (2d Cir. 1974). Accordingly, we grant Manhattan's motion for partial dismissal of the appeal as to the matters sought to be reviewed by pendent appellate jurisdiction.

Judgment affirmed in part; appeal dismissed in part. Costs to appellees.

APPENDIX B

Order of the United States District Court for the Southern District of New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SWEATER BEE BY BANFF, LTD.,	:	81 Civ. 3975 (VLB)
Plaintiff,	:	
-against-	:	ORDER
MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, DON SOPHISTICATES, INC., and HERBERT ROUNICK,	:	
Defendants.	:	

WHEREAS, Plaintiff having made on December 16, 1983 motions (1) to amend and supplement the amended complaint to add certain allegations and to add claims for civil contempt and RICO violations against defendants Manhattan Industries, Inc. ("Manhattan"), Bayard Shirt Corporation ("Bayard") and proposed defendants Laurence C. Leeds, Jr., Donald H. Kallman, Robert Hamel, Fred Feldstein and Champpierre, Ltd., (2) for the scheduling

of a trial on criminal contempt as to defendants Manhattan and Bayard, (3) for appointment of plaintiff's counsel as criminal contempt prosecutor and (4) for summary judgment as to liability on civil contempt against defendants Manhattan, Bayard and the proposed defendants; and defendants Manhattan and Bayard and the proposed defendants having cross-moved by Notice of Motion dated June 25, 1984 to compel arbitration of certain issues raised by plaintiff's source-reference claims and for a stay of all such claims pending arbitration; and the Court having considered the extensive memoranda and affidavits submitted by the parties and having heard extensive oral argument on August 10, 1984;

IT IS HEREBY ORDERED that:

1. The defendants Manhattan-Bayard's cross-motion to compel arbitration of and for a stay of plaintiff's source-refer-

ence claims in this action as alleged in counts sixteen through twenty, twenty-four, twenty-five and twenty-seven of the Proposed Second Amended and Supplemental Complaint dated December 16, 1983 (to the extent such amendment is permitted by this Order), pending arbitration of the source-reference claims is GRANTED.

2. The plaintiff's motion for partial summary judgment as to liability for civil contempt is DENIED.

3. The plaintiff's motion for leave to amend its complaint to add a claim for civil contempt is DENIED.

4. The plaintiff's motion for a prompt trial of the charges of criminal contempt is placed on SUSPENSE.

5. The plaintiff's motion for appointment of counsel to prosecute the charges of criminal contempt is placed on SUSPENSE.

6. The issues relating to civil con-

tempt are referred promptly to a special master; each side is ORDERED to pay one-half the master's fees, with the ultimate responsibility for the master's fee to abide the event. Neal J. Hurowitz, 598 Madison Avenue, New York, New York 10022 (755-4300) is designated as special master. He is to schedule and hold an evidentiary hearing and to hear and report to me as to whether there has been civil contempt of the final order entered by me in 79 Civ. 5346, a copy of which is annexed to this order, and, if there has been such civil contempt, as to the amount of damage, if any, suffered by plaintiff as the result of such civil contempt. The special master will schedule the sessions of the evidentiary hearing at times and places selected by him, and shall arrange for the transcription of the proceedings. The special master shall determine what, if any, discovery

will be permitted with respect to the hearing, and shall hear and determine all matters with respect to discovery.

7. The plaintiff's motion for leave to amend its complaint to add a claim under the Racketeer influenced and Corrupt Organizations Act is DENIED.

8. The plaintiff's motion to add allegations of source-reference violations on invoices, purchase orders, clothing labels and clothing hang tags as set forth in the proposed amended and supplemental complaint is GRANTED.

9. The matters of civil and criminal contempt are to be considered under the caption of the previous action, Manhattan Industries, Inc., et al v. Sweater Bee By Banff, Ltd., et ano., 79 Civ. 5346 (VLB).

10. The special master shall send to each of plaintiff's counsel, and a counsel designated by defendants, a statement at the end of each month for one-half of

his fees and expenses, which will be promptly paid. His fee shall be computed on the basis of $175.00 per hour.

Dated: New York, New York
August 22, 1984

SO ORDERED: /s/ Vincent L. Broderick
Honorable Vincent L. Broderick
United States District Judge

APPENDIX C

Earlier Memorandum Order of the United States District Court for the Southern District of New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SWEATER BEE BY BANFF, LTD., Plaintiff,	:	81 Civ. 3975 (VLB)
-against-	:	MEMORANDUM ORDER
MANHATTAN INDUSTRIES, INC., et al., Defendants.	:	

VINCENT L. BRODERICK, U.S.D.J.

The parties to this action, with the exception of the individual defendant, were before this court two years ago, although in reversed roles. In that case, No. 79 Civ. 5346 (VLB), the plaintiffs (defendants here) asked me to enjoin Sweater Bee by Banff, Ltd. (plaintiff here) from using the trademark KIMBERLY on the women's apparel which they manufactured. I granted the injunction sought upon a finding that Don Sophisticates, Inc., predecessor in

interest to Manhattan Industries, Inc. and Bayard Shirt Corporation, had adopted the trademark immediately after it was abandoned by General Mills and prior to the time it was first used by Sweater Bee. The Court of Appeals reversed, reasoning that, on balancing the equities, the slight priority in time was insufficient to justify granting Manhattan-Bayard a right of exclusive use. Manhattan Industries, Inc., et al. v. Sweater Bee by Banff, Ltd., et al., 627 F.2d 628 (2d Cir. 1980). On remand, the parties were granted concurrent rights in the tradename, with certain conditions, among which was the requirement that any use of the tradename be accompanied by a source reference.

Sweater Bee claims in its amended complaint that the plaintiffs in the previous action and defendant Rounick, then chairman of the Board and chief

executive officer of Don Sophisticates, perpetrated a fraud upon the court in that action and strengthened their claim by concealing their wrongful use of the KIMBERLY trademark prior to the time it was abandoned by General Mills, and by concealing invoices which would have proven the contrary. Plaintiff asserts that by fraudulently prosecuting the previous action, obtaining the injunction, and by making certain misrepresentations to the garment industry after the conclusion of that litigation, the defendants have combined to restrain trade, in violation of §1 of the Sherman Act, 15 U.S.C. §1, and have attempted to create and been successful in creating a monopoly, in violation of §2 of the Sherman Act, 15 U.S.C. §2.

In addition, plaintiff claims that defendants have violated §43(a) of the Lanham Act, 15 U.S.C. §1125(a), by

failing to include the source reference required by this court on its KIMBERLY labels. The plaintiff also presses claims based on federal and state common law torts and on §340 of the General Business Law of New York. I have jurisdiction over all of these matters by virtue of 15 U.S.C. §§15 and 1121, and the doctrine of pendent jurisdiction.

Before me is a motion by all of the defendants to dismiss pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. Although defendants assert that their motion does not seek summary judgment, they have submitted affidavits and exhibits in its support. Under Rule 12(b) when matters outside the pleadings are submitted to and not excluded by the court, the motion to dismiss under Rule 12(b)(6) is to be treated as a motion for summary judgment under Rule 56. Because summary judgment would be inappropriate

at this time [See, George C. Frey Ready-Mixed Concrete, Inc. v. Pine Hill Concrete Mix Corp., 554 F.2d 551, 554-55 (2d Cir. 1977)], I shall not consider the matters outside the amended complaint which have been submitted, and shall deal with the motion as one for dismissal pursuant to Rule 12(b)(6).

In this procedural posture, the allegations of the amended complaint are to be taken as true and the plaintiff is entitled to all reasonable inferences which may be drawn therefrom. Scheuer v. Rhodes, 416 U.S. 232, 236 (1974). Accordingly, the question before me is whether, when read in a light most favorable to the plaintiff, the complaint sets forth any set of facts upon which the plaintiff is entitled to relief. Hospital Building Co. v. Trustees of Rex Hospital, 425 U.S. 738 (1976).

For the reasons set forth below, I

find that certain of the claims are sufficient and others are not, and therefore the motion is granted in part and denied in part.

1. Motion under Rules 8 and 12(f)

Defendants assert that the complaint does not set forth a "short and plain statement" as required by Rule 8 and therefore must be dismissed, or at least stricken in part under Rule 12(f). Although there is authority in this circuit to the contrary, I think it is clear that the court may, in its discretion, dismiss a complaint with prejudice for failure to abide by the rules of pleading. See Nevijel v. North Coast Life Ins., 651 F.2d 671 (9th Cir. 1981); DeWitt v. Pail, 366 F.2d 682 (9th Cir. 1966); Maddox v. Shroyer, 302 F.2d 903 (D.C. Cir. 1962), cert. denied, 371 U.S. 825 (1962), reh. denied, 371 U.S. 917 (1962). But see Mull v. Colt Co., 31

F.R.D. 154 (S.D.N.Y. 1962); Brickholtz v. Renard, 188 F.Supp. 888 (S.D.N.Y. 1960). However, before such drastic action is taken the complaint must be egregiously defective and the court must attempt to resolve the matter by resort to the wide range of sanctions available short of dismissal. See Nevijel v. North Coast Life Ins. Co., supra, at 673-74. I therefore deny the motion to dismiss for violations of Rule 8, and proceed to consideration of the motion to strike under Rule 12(f).

Rule 12(f) motions are not generally favored. Wellman v. Dickinson, 79 F.R.D. 341 (S.D.N.Y. 1978); Wohl v. Blair & Co., 50 F.R.D. 89 (S.D.N.Y. 1970). As the Court of Appeals for this circuit has noted:

> The Federal Rules of Civil Procedure have long departed from the era when lawyers were bedeviled by intricate pleading rules and when law-

> suits were won or lost on the pleadings alone. Thus the courts should not tamper with the pleadings unless there is a strong reason for so doing.

Lipsky v. Commonwealth United Corp., 551 F.2d 887, 893 (2d Cir. 1976).

In the case at bar, the length of the complaint results primarily from the complexity of the claims, and the extent of the prior dealings between the parties. "In any event, '[a]llegations in a complaint which supply background or historical material or which are of evidentiary quality will not be stricken unless unduly prejudicial to defendant.'" Fuchs Sugar & Syrups, Inc. v. Amstar Corp., 402 F.Supp. 636, 637-8 (S.D.N.Y. 1975), citing South Side Drive-In Co. v. Warner Bros. Pictures Dist. Corp., 30 F.R.D. 32, 34 (E.D. Pa. 1962). The allegations of the complaint are not "unduly prejudicial" to the defendants and, in fact, provide them with more information

than is generally required regarding the nature of plaintiff's claim. Since I find no "strong reason" for granting the motion to strike, it is denied.

2. Motion under Rule 9(b)

Defendants contend that the plaintiff has not pleaded fraud with the particularity required by Rule 9(b). This rule requires that the plaintiff plead:

> 1) precisely what statements were made in what documents or oral representations or what omissions were made, and 2) the time and place of each such statement and the person responsible for making (or, in the case of omissions, not making) the same, 3) the content of such statements and the manner in which they misled the plaintiff, and 4) what the defendants "obtained as a consequence of the fraud."

Barclays Bank v. Goldman, 517 F.Supp. 403, 415 (S.D.N.Y. 1981).

The plaintiffs here have set forth a long and detailed complaint indicating specifically the conduct of which they

complain. First it states that the corporate defendants knowingly concealed from the court invoices which would have revealed the weakness of their position, and thereby fraudulently obtained an injunction against the plaintiff. Second, the individual defendant allegedly made a false affidavit in connection with that action, knowing his statements to be false. Third, the defendants further misrepresented to the garment industry that they were the true owner of the KIMBERLY label, thereby obtaining business at the expense of the plaintiff.

The complaint is therefore more than sufficiently specific as indicated by defendants' contention, discussed above, that the plaintiff is pleading evidence. I find no basis for holding that the complaint is insufficient in that it fails to plead fraud with the particularity required by Rule 9(b). Defendants'

motion on this ground is therefore denied.

3. Rule 60 and Collateral Estoppel

Defendants maintain that the current action is barred by Rule 60(b) of the Federal Rules of Civil Procedure or collateral estoppel.

Plaintiffs do not seek to set aside the judgment in the previous action, but rather want to use it as a basis for an action on a separate theory. Since Rule 60(b) applies only to motions to set aside a judgment, its time limitation is not binding here.

Collateral estoppel is likewise inapplicable since the theory of the plaintiff's action is fraud. No collateral estoppel effect can be given to a finding obtained by fraud. See Commissioner v. Sunnen, 333 U.S. 591, 597 (1948); Grummons v. Zollinger, 240 F.Supp. 63, 75 (N.D. Ind. 1964), aff'd,

341 F.2d 464 (7th Cir. 1965). Assuming, as I must at this stage in the litigation, that the plaintiff can prove fraud, the prior holding has no effect on this action. The motion to dismiss based on these grounds is denied.

4. Antitrust Claims.

The question here is whether the use of fraud to obtain wrongful enforcement of a trademark claim states a cause of action under Sections 1 and 2 of the Sherman Act. To do so, the complaint must first overcome the barrier of the Noerr-Pennington doctrine which, in essence, establishes that recourse to the courts cannot be the basis for antitrust liability. See California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972); United Mine Workers v. Pennington, 381 U.S. 657 (1965); Eastern Railroad Presidents Conference v. Noerr Motor Freight, 365 U.S. 127 (1961), reh.

denied, 365 U.S. 875 (1961). However, this doctrine does not protect "sham lawsuits" or any other activity that effectively bars "free and unlimited access" to the courts. See California Motor Transport, supra, at 511.

The defendants incorrectly argue that to come within this "sham exception" the plaintiff must show repetitive baseless suits. Although a pattern of baseless claims is one way of avoiding the Noerr-Pennington doctrine, it is not the only way. Feminist Women's Health Center v. Mohammad, 586 F.2d 530 (5th Cir. 1978), reh. denied, 591 F.2d 1343 (5th Cir. 1979), cert. denied, 444 U.S. 924 (1979). "[I]t is the corruption of the administrative or judicial process that removes the shield of antitrust immunity provided by Noerr." Wilmorite, Inc. v. Eagan Real Estate, Inc., 454 F.Supp. 1124, 1131 (N.D.N.Y. 1977), aff'd, 578

F.2d 1372 (2d Cir. 1978), cert. denied, 439 U.S. 983 (1978). Obtaining an injunction by the use of fraudulent misrepresentation and concealment is a corruption of the judicial process. Hence, the Noerr-Pennington doctrine is not a bar to this action.

It has long been the law in this circuit that the knowing assertion of an invalid trademark claim can constitute a violation of the Sherman Act if the other elements of that infraction are proven. Kellogg Co. v. National Biscuit Co., 71 F.2d 662, 666 (2d Cir. 1934). A claim under §2 of the Sherman Act requires proof of three elements: possession of monopoly power in the relevant market, willful acquisition or maintenance of that power, and causal antitrust injury. Cal. Computer Products, Inc. v. IBM, 613 F.2d 727, 735 (9th Cir. 1979). A §1 violation requires proof of 1) a combination

or conspiracy 2) which is intended unreasonably to restrain trade. Plaintiff has pleaded each of these elements, and defendants' argument centers around plaintiff's definition of the relevant market, a question of fact. While it may very well be that in the context of this case an antitrust claim cannot be established, I do not intend to decide that issue on a motion addressed to the pleadings. The motion to dismiss the antitrust claims is denied.

5. Lanham Act Claims

Paragraph 7 of this court's order on remand in the prior case clearly established the requirement that each of the parties use a source reference in connection with the KIMBERLY trademark. Plaintiff has alleged that the defendants have failed to comply with this order. Failure to use a source reference where one is required clearly states a claim

under §43(a) of the Lanham Act, 15 U.S.C. §1125(a). See Sutton Cosmetics (P.R.) v. Lander Co., 455 F.2d 285 (2d Cir. 1972); Exquisite Form Indus., Inc. v. Exquisite Fabrics of London, 378 F.Supp. 403 (S.D.N.Y. 1974). This provision encompasses more than just labelling, and defendants' failure to use a source reference in advertising and directory listings can also constitute a violation of it. See, Benson v. Paul Winley Record Sales Corp., 452 F.Supp. 516 (S.D.N.Y. 1978). Defendants' motion to dismiss the twentieth claim for relief is, therefore, denied.

6. Federal Common Law Claims

Since the time of Erie R. Co. v. Tompkins, 304 U.S. 64 (1938), it has been clear that "[t]here is no federal general common law." Id. at 78. "Except in matters governed by the Federal Constitution or by Acts of Congress, the law to

be applied in any case is the law of the State." Id. The only time federal common law may be used is "when the issues involve so strong a federal interest that it is appropriate to resolve them on the basis of uniform decisional federal law rather than varying state laws." Pennzoil Co. v. FERC, 645 F.2d 360, 385 (5th Cir. 1981), cert. denied, ___ U.S. ___, 71 L.Ed.2d 293, 102 S.Ct. 1000 (1982). There is no such interest here.

Defendants' motion to dismiss the twenty-second and twenty-third claims is granted.

7. Pendent State Law Claims

a. General Business Law §340

The courts have recognized that New York's Donnelly Act, of which §340 of the General Business Law is a part, is modelled on the Sherman Act and is to be analyzed similarly. See Optivision, Inc. v. Syracuse Shopping Ctr. Assoc., 472

F.Supp. 665 (N.D.N.Y. 1979). Its scope may, however, be broader than that of the Sherman Act. State v. Mobil Oil Corp., 38 N.Y.2d 460, 344 N.E.2d 357, 381 N.Y.S.2d 426 (1976). Indeed, under §340, "[a]ll that need be shown is the tendency of the alleged arrangement or combination will be or has been to lessen competition within the relevant market [citations omitted]." Schlottman Agency, Inc. v. Aetna Cas. & Surety Co., 70 A.D.2d 1041, 417 N.Y.S.2d 561, 562 (4th Dep't 1979). In light of the similarity of the two acts, my decision with regard to the Sherman Act claims is dispositive with respect to the Donnelly Act claims as well. The motion to dismiss the twenty-fourth claim is denied.

b. Fraud

The elements of fraud in New York are: "misrepresentation of a material fact, falsity of that misrepresentation,

scienter, reliance and damages." Mallis v. Bankers Trust Co., 615 F.2d 68, 80 (2d Cir. 1980), cert. denied, 449 U.S. 1123, 67 L.Ed.2d 109, 101 S.Ct. 938 (1981). Each of these elements is pleaded with the particularity required by the federal rules. The motion to dismiss the allegation of fraud contained in the twenty-fifth claim is denied.

c. Unfair Competition

A claim under New York law for unfair competition requires "a misappropriation of the skill, expenditures, and labor of another." American Footwear Corp. v. General Footwear Co., 609 F.2d 655, 662 (2d Cir. 1979), cert. denied, 445 U.S. 951, 63 L.Ed.2d 787, 100 S.Ct. 1601 (1980). Although the complaint does not specify which factual allegations support this claim, only the facts stated with regard to the twentieth claim, under the Lanham Act, could conceivably set forth a

cause of action in unfair competition. Because the law of trademark infringement comes within the broad scope of unfair competition, Corning Glass Works v. Jeannette Glass Co., 308 F.Supp. 1321 (S.D.N.Y. 1970), aff'd, 432 F.2d 784 (2d Cir. 1970), my decision with regard to the Lanham Act claim requires, at least at this stage in the litigation, that the motion to dismiss the allegation of unfair competition be denied.

d. Interference with Contractual and Prospective Business Relations

In New York, a cause of action in tortious intereference with contractual relations requires both an actual and existing contract and knowledge of that contract on the part of the defendant. Guard-Life Corp. v. S. Parker Hardware Mfg. Corp., 50 N.Y.2d 183, 193, 406 N.E.2d 445, 450, 428 N.Y.S.2d 628, 634 (1980); accord, Diehl & Sons, Inc. v.

International Harvester Co., 445 F.Supp. 282 (E.D.N.Y. 1978). There is no such requirement with regard to an action for interference with advantageous business relationships, which is clearly actionable where unlawful means are used. Sommer v. Kaufman, 59 A.D.2d 843, 399 N.Y.S.2d 7 (1st Dep't 1977). The plaintiff here has alleged unlawful means and injury to prospective business relations, but not an actual contract and knowledge thereof by the defendant. These allegations are sufficient to support the claim of intereference with business relations, but not interference with contract, so the claim for the latter must be dismissed.

e. Disparagement

A claim of disparagement involves the making of a false statement, but is not necessarily limited to the making of derogatory comments regarding the prod-

ucts of a competitor. Rather, "'[t]he cause of action probably is as broad as any injurious falsehood which disturbs prospective advantage ...'" Diehl & Sons, Inc. v. International Harvester, supra, 445 F.Supp. at 291, citing W. Prosser, Torts §128, at 919-20 (4th ed. 1971). The plaintiff's Lanham Act allegations fall within the liberal scope of this tort, and this claim will not be dismissed.

f. Abuse of Process and Malicious Prosecution

Plaintiff's claim in abuse of process is misplaced. This tort involves the misuse of process which has been properly issued, not the use of fraud to cause process to issue without justification. Alexander v. Unification Church of America, 634 F.2d 673, 677 (2d Cir. 1980).

An action in malicious prosecution, on the other hand, "may lie where a civil

action has been instituted against a person and, as an incident thereof, resort is had to a provisional remedy, such as arrest, attachment or injunction, maliciously and without probable cause, which interferes with his person or property." [citation omitted] Lincoln First Bank v. Siegel, 60 A.D.2d 270, 280, 400 N.Y.S.2d 627, 634 (4th Dep't 1977). This is precisely what the plaintiff alleges with regard to the earlier trademark action. Accordingly, so much of the twenty-sixth claim as pleads a cause of action in abuse of process is dismissed; the claim of malicious prosecution may stand.

g. Punitive Damages

Whether or not a request for punitive damages states a separate claim for relief, such an award is available in any action for intentional tort, "depending upon defendant's degree of moral

culpability." Chase Manhattan Bank, N.A. v. Perla, 65 A.D.2d 207, 211-212, 411 N.Y.S.2d 66, 69 (4th Dep't 1978); see also Le Mistral, Inc. v. Columbia Broadcasting System, 61 A.D.2d 491, 402 N.Y.S.2d 815 (1st Dep't 1978). Because malice is the essence of plaintiff's claim, a request for punitive damages is proper and will not be dismissed.

8. Conditional Vacatur

Because I have held that if the plaintiff can prove fraud the findings of the prior action will not be binding in this action, see supra, part 3, the request for conditional vacatur of those findings is no longer necessary and is dismissed.

9. Conclusion

For the reasons set forth above, I have denied defendants' motion under Rules 8, 9(b), and 12(f). I have denied defendants' motion under Rule 12(b)(6),

except with respect to the twenty-second and twenty-third claims, so much of the twenty-fifth claim as pleads an action in interference with contractual relations, so much of the twenty-sixth claim as pleads an action in abuse of process, and all of the twenty-eighth claim, which are dismissed. Plaintiff has withdrawn claims five, ten, fifteen, twenty-one, and so much of claim twenty-five as pleads a cause of action in prima facie tort, and they are dismissed as well. In all other respects, the motion to dismiss is denied.

SO ORDERED.

/s/ Vincent L. Broderick
Vincent L. Broderick, U.S.D.J.

Dated: New York, New York
October 18, 1982

APPENDIX D

Judgment of the United States Court of Appeals
for the Second Circuit

[On the date of this petition for a writ of certiorari, April 29, 1985, the deputy clerk of the United States Court of Appeals informed counsel for the petitioner that the separate document entitled "judgment" had not been prepared, as the mandate had not issued. The judgment, when prepared and received, will be furnished for insertion at this point. Nevertheless, the date of the underlying opinion of the Second Circuit, February 6, 1985, indicates that this petition for a writ of certiorari is timely filed within 90 days on this date April 29, 1985.]

APPENDIX E

Amended Complaint as a Matter of Course

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SWEATER BEE BY BANFF, INC., Plaintiff, v. MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, DON SOPHISTICATES, INC., and HERBERT ROUNICK, Defendants.	Index No. 81 Civil 3975 (VLB) AMENDED COMPLAINT AS A MATTER OF COURSE JURY TRIAL DEMANDED

The plaintiff, by its attorney, amending its complaint as a matter of course and complaining of the defendants, alleges that:

JURISDICTIONAL ALLEGATIONS

1. This is an action seeking damages for illegal conspiracy and monopoly in violation of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, as well as for related claims arising under federal law, with pendent claims under

New York State law for wrongful restraint of trade, unfair competition, and related commercial torts arising out of the same nucleus of operative fact as do the federal claims. Accordingly, this Court has jurisdiction over the subject matter of the federal claims by reason of 15 U.S.C. §§ 15, 1121 and 28 U.S.C. §§ 1331, 1337 and has jurisdiction over the subject matter of the State claims by reason of this Court's pendent jurisdiction. United Mine Workers v. Gibbs, 383 U.S. 715, 725 (1966).

THE PARTIES, BACKGROUND, AND SUMMARY.

2. The plaintiff SWEATER BEE BY BANFF, LTD. ("SWEATER BEE"), is an international manufacturer and distributor of quality women's wearing apparel including, without limitation, sweaters, jackets, dresses, pants, and pantsuits. SWEATER BEE has been in business

continuously since 1968. SWEATER BEE has offices and manufacturing plants in several states and foreign countries and does extensive business in interstate and foreign commerce.

3. The defendants MANHATTAN INDUSTRIES, INC. ("MANHATTAN"), BAYARD SHIRT CORPORATION ("BAYARD"), and DON SOPHISTICATES, INC. ("DON SOPHISTICATES"), are all horizontal competitors of plaintiff SWEATER BEE in the manufacture and distribution of women's wearing apparel in interstate and foreign commerce. Defendant MANHATTAN is the parent company of defendant BAYARD which is a subsidiary of defendant MANHATTAN.

4. Defendant HERBERT ROUNICK ("ROUNICK") is the former Chairman and former Chief Executive Officer of defendant DON SOPHISTICATES. Unless otherwise noted in the text of this complaint, the term "the defendants" or

"the present defendants" means and includes all defendants in this action.

5. As is alleged more fully below, the plaintiff SWEATER BEE is a concurrent owner and user of the KIMBERLY trademark as to women's wearing apparel and related goods (hereafter referred to as "KIMBERLY trademark"). The KIMBERLY trademark includes the work "KIMBERLY" and all word combinations which include the word "KIMBERLY."

6. Plaintiff SWEATER BEE owns and uses the KIMBERLY trademark concurrently with the present corporate defendants as confirmed by a decision of the United States Court of Appeals for the Second Circuit in an earlier trademark action between the present parties (hereafter referred to as "trademark action"). In the trademark action, the present defendants had obtained an injunction from the District Court enjoining SWEATER BEE's

use of the KIMBERLY trademark. However, SWEATER BEE prosecuted a successful appeal to the Second Circuit which reversed the injunction and confirmed that SWEATER BEE enjoyed concurrent rights of ownership in the KIMBERLY trademark. See Manhattan Industries, Inc. v. Sweater Bee By Banff, Ltd., 627 F.2d 628 (2d Cir. 1980). (A copy of the Second Circuit's decision is annexed as Exhibit A.)

7. The injunction in the trademark action was procured by the present defendants' perjury and fraud. The Second Circuit reversed the injunction on grounds other than fraud because the fraud became apparent after the appeal was determined. Nevertheless the defendants' fraud in procuring the injunction and in commencing and prosecuting the trademark action against plaintiff SWEATER BEE caused plaintiff SWEATER BEE to suffer substantial damages.

8. As is alleged more fully below, the defendants' fraud and perjury in commencing and prosecuting the trademark action were integral parts of a conspiracy, monopoly and/or attempted monopoly by the defendants in restraint of competition in interstate commerce, in violation of 15 U.S.C. §§ 1 and 2, as well as in violation of other provisions of federal and State law.

9. Additionally, the defendants jointly have engaged in other conspiratorial and monopolistic practices with the intent and result of restraining and/or monopolizing trade in interstate commerce, notwithstanding plaintiff SWEATER BEE's concurrent ownership of the KIMBERLY trademark. These additional activities by the defendants also constitute violations of 15 U.S.C. §§ 1 and 2, as well as violations of other provisions of federal and State law.

10. This complaint is divided into nine (9) sections, each of which contains one or more claims for relief as follows:

Sections I-III: Each of these sections I-III contains a set of facts giving rise to antitrust and trademark liability. Each section builds upon the defendants' fraud and perjury in the commencement and prosecution of the trademark action against SWEATER BEE. Each section contains a parallel set of four (4) antitrust claims under 15 U.S.C. §§ 1 and 2, plus one false-designation-of-origin claim under 15 U.S.C. § 1125(a).

Section IV: This section contains four (4) antitrust claims under 15 U.S.C. §§ 1 and 2, plus one false-designation-of-origin claim under 15 U.S.C. § 1125(a), all of which are based upon the corporate defendants'

disparagement and misrepresentations to the public and to the garment industry after the trademark action.

Section V: Antitrust claim under 15 U.S.C. §§ 1 and/or 2, based upon predatory pricing by defendants MANHATTAN and BAYARD.

Section VI: Wrongful Injunction, Malicious Prosecution and Abuse of Process under Federal Common Law.

Section VII: Pendent State Law Claims.

Section VIII: Punitive Damages.

Section IX: Claim for conditional vacatur of certain findings of fact concerning DON SOPHISTICATES in the trademark action.

SECTION I

FOUR ANTITRUST CLAIMS AND ONE FALSE-DESIGNATION-OF-ORIGIN CLAIM BASED UPON THE DEFENDANTS' FRAUD AND PERJURY IN COMMENCING AND PROSECUTING THE TRADEMARK ACTION AGAINST SWEATER BEE AND IN FRAUDULENTLY PROCURING AND MAINTAINING AGAINST SWEATER BEE THE INJUNCTION WHICH WAS REVERSED ON APPEAL IN THE TRADEMARK ACTION (FIRST THROUGH FIFTH CLAIMS FOR RELIEF)

COMMON ALLEGATIONS IN FIRST THROUGH FIFTH CLAIMS FOR RELIEF

11. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 1 - 9 of this complaint.

12. The KIMBERLY trademark on women's wearing apparel traditionally has been associated with better-quality women's apparel inclusive of dresses, sweaters, blouses, jackets and pants.

13. Prior to May 7, 1979, the KIMBERLY trademark was owned by General Mills, Inc. On that day, General Mills formally abandoned the KIMBERLY trademark by preparing for filing with the U.S. Patent Office formal abandonments of its trade-

mark registrations in the name KIMBERLY.

14. The KIMBERLY trademark has special importance in the garment industry. In the garment industry, the trademark is the be all and end all of everything. The trademark is in fact the ultimate in the garment industry, and certainly the KIMBERLY trademark is.

15. In the garment industry, the KIMBERLY trademark denotes women's wearing apparel of an especially prestigious name, image, good will and reputation for which consumers will shop without substitutability by apparel bearing other trademarks.

16. In the garment industry, the attachment of the KIMBERLY trademark to women's wearing apparel permits sales of such apparel in substantial instances where the indentical apparel under a different trademark could not be sold at a substantially similar or profitable

price.

17. Upon General Mills' abandonment of the KIMBERLY mark, several manufacturers and distributors of women's apparel sought to acquire the valuable KIMBERLY mark by shipment under the KIMBERLY mark in interstate commerce. Plaintiff SWEATER BEE began shipping apparel under the KIMBERLY trademark in interstate commerce on May 10, 1979. One day later, the defendants MANHATTAN and BAYARD began shipping apparel under the KIMBERLY trademark in interstate commerce on May 11, 1979.

18. Defendants MANHATTAN and BAYARD were aware that plaintiff SWEATER BEE had made substantial and early shipments under the KIMBERLY label. A news article published on May 16, 1979, in the trade paper Women's Wear Daily, of which these defendants were aware, reported that plaintiff SWEATER BEE had made early

shipments under the KIMBERLY mark (Exhibit B); and plaintiff's trademark counsel on July 5, 1979, posted a letter by certified mail to the defendants MANHATTAN and BAYARD specifically informing those defendants that plaintiff SWEATER BEE had made early and continuous shipments under the KIMBERLY trademark (Exhibit C).

19. During the first 5 months following General Mills' abandonment of the KIMBERLY mark (May 7, 1979-October 9, 1979), plaintiff SWEATER BEE was in open and lawful competition with the defendants in using the KIMBERLY mark in interstate commerce. During this initial 5-month period, plaintiff SWEATER BEE realized far greater goodwill, sales, and patronage under the KIMBERLY mark than did all the defendants combined. During this initial 5-month period, plaintiff SWEATER BEE's sales under the KIMBERLY

mark exceeded the aggregate sales of all defendants by a factor of 236% -- $130,000.00 in sales by SWEATER BEE, as contrasted with $55,000.00 in sales by all defendants combined.

20. Under the established law in this Circuit at the time of General Mills' abandonment of the KIMBERLY mark, competitors seeking to acquire an abandoned trademark are equally entitled to use the relevant mark if they entered the market sufficiently early with regard to each other. P. Daussa Corp. v. Sutton Cosmetics (P.R.), Inc., 462 F.2d 134, 136 (2d Cir. 1972).

21. By reason of plaintiff SWEATER BEE's early and substantial shipments under the KIMBERLY trademark, plaintiff SWEATER BEE gained rights of concurrent ownership in the KIMBERLY trademark with defendants MANHATTAN and BAYARD.

22. Beginning in the latter part of

May 1979, the defendants MANHATTAN and BAYARD combined with defendants DON SOPHISTICATES and ROUNICK in a fraudulent scheme to restrain and/or monopolize trade and commerce and to deprive plaintiff SWEATER BEE of any and all rights which SWEATER BEE possessed in the KIMBERLY trademark.

23. As part of this fraudulent scheme, the defendants conspired to conceal and misrepresent, and/or knowingly concealed and misrepresented, the date on which defendant DON SOPHISTICATES began shipping apparel under the KIMBERLY trademark. Defendant DON SOPHISTICATES had begun shipping KIMBERLY apparel prior to the abandonment of the KIMBERLY trademark by General Mills. As is alleged more fully below, these pre-abandonment shipments revealed that DON SOPHISTICATES' shipments of KIMBERLY apparel were not bona-fide for purposes of acquiring the

KIMBERLY trademark. The defendants intentionally concealed these pre-abandonment shipments by DON SOPHISTICATES in order to convey the false impression that DON SOPHISTICATES made early bona-fide trademark shipments of KIMBERLY apparel, as follows:

a. Defendant DON SOPHISTICATES began shipping KIMBERLY apparel on or about April 25, 1979, which was approximately 2 weeks prior to the abandonment of the KIMBERLY trademark by General Mills on May 7, 1979. Defendant DON SOPHISTICATES continued these shipments of KIMBERLY apparel from April 25, 1979, until at least May 15, 1979. (See invoices of DON SOPHISTICATES' shipments of KIMBERLY apparel from April 25, 1979-May 15, 1979 under style numbers "2435" - "2439" annexed as Exhibit D; the affidavit annexed as Exhibit E confirms

that these same style numbers "2435"-"2439" represent KIMBERLY apparel shipped by DON SOPHISTICATES.)

b. The defendants suppressed and concealed those particular invoices of defendant DON SOPHISTICATES which pre-dated General Mills' abandonment of the KIMBERLY trademark (i.e., invoices prior to May 7, 1979, hereafter referred to as "pre-abandonment invoices"). These pre-abandonment invoices were evidence that DON SOPHISTICATES was either:

(i) a mere jobber in KIMBERLY apparel produced for General Mills, because General Mills then still owned the KIMBERLY trademark, or

(ii) a licensee/permittee of General Mills because General Mills then still owned the KIMBERLY trademark, or

(iii) an infringer of General Mills' trademark KIMBERLY, because General Mills then still owned the KIMBERLY trademark.

c. To the extent that the pre-abandonment invoices evidenced that DON SOPHISTICATES was:

(i) a mere jobber, the defendants concealed the pre-abandonment invoices because jobbers do not have the requisite trademark-acquiring intent and thus do not acquire trademark rights, or if

(ii) a permittee or licensee of General Mills, the defendants concealed the pre-abandonment invoices because permittees/licensees do not have the requisite trademark-acquiring intent and thus do not acquire trademark rights, or if

(iii) an infringer of General Mills' trademark, the defendants concealed the pre-abandonment invoices because infringers who compete for an abandoned trademark may have fewer equities in claiming trademark-rights on the basis of a continuum of shipments which began as an infringer.

d. The suppression of the pre-abandonment (i.e., pre-May 7, 1979) invoices of DON SOPHISTICATES made it appear that defendant DON SOPHISTICATES began shipping KIMBERLY apparel on May 7, 1979, which was the precise date of General Mills' abandonment of the KIMBERLY trademark, thereby making it appear falsely that DON SOPHISTICATES possessed the requisite trademark-acquiring intent and/or the requisite equities in its KIMBERLY

shipments.

e. This contrived initial shipping date of defendant DON SOPHISTICATES (May 7, 1979) had the additional advantage of pre-dating plaintiff SWEATER BEE's initial shipment date of May 10, 1979, thereby making it appear also that defendant DON SOPHISTICATES had a slight calendar priority over plaintiff SWEATER BEE in making trademark shipments of KIMBERLY apparel.

f. The defendants then negotiated an assignment under which defendant DON SOPHISTICATES assigned to defendants MANHATTAN and BAYARD all purported rights (including the purported initial shipment date of May 7, 1979) which DON SOPHISTICATES allegedly possessed in the KIMBERLY trademark. (See assignment as Exhibit F.)

24. As part of the defendants' fraudulent scheme, the defendants conspired to conceal and misrepresent, and/or knowingly concealed and misrepresented, the registration-status of KIMBERLY labels under which DON SOPHISTICATES had shipped apparel, as follows:

a. Defendant DON SOPHISTICATES had shipped apparel under an apparently registered KIMBERLY label containing the registration notice ®, specifically under the "KIMBERLY ® CLUB" label (hereafter referred to as "registered KIMBERLY label"). (See DON SOPHISTICATES' letter reciting shipments under the "KIMBERLY ® CLUB" label as Exhibit G.)

b. Only General Mills, Inc., had a registered trademark in the name KIMBERLY permitting the use of the registration-notice ®.

c. DON SOPHISTICATES' shipments

under the registered KIMBERLY label were evidence either that (1) DON SOPHISTICATES shipped as a jobber or licensee/permittee in KIMBERLY apparel of General Mills who owned the registered trademark, or that (2) DON SOPHISTICATES fraudulently used a registration-notice in its KIMBERLY shipments.

d. By concealing DON SOPHISTICATES' use of the registered KIMBERLY label, the defendants knowingly made it appear falsely that DON SOPHISTICATES possessed the requisite trademark-acquiring intent and/or the requisite equities in its KIMBERLY shipments.

25. The defendants agreed to commence the trademark action against plaintiff SWEATER BEE and to misrepresent to SWEATER BEE and to the Court under oath in the trademark action that, inter

alia, (1) defendant DON SOPHISTICATES began shipping KIMBERLY apparel on May 7, 1979 (rather than on its actual first-shipment date of April 25, 1979), and that (2) defendant DON SOPHISTICATES shipped apparel under the "KIMBERLY CLUB" label without inclusion of the registration-notice ® when in fact DON SOPHISTICATES had shipped under the "KIMBERLY ® CLUB" label with the registration-notice ®.

26. In furtherance of this fraudulent scheme, the defendants pursued the following course of conduct:

a. The defendants prepared and filed against plaintiff SWEATER BEE a complaint containing verified allegations which the defendants knew to be false as to the dates on which, and as to the registration-status of the labels under which, defendant DON SOPHISTICATES shipped KIMBERLY

apparel. (A copy of the defendants' complaint, hereafter referred to as "trademark complaint," is annexed as Exhibit H.)

b. Among the specific verified allegations in the trademark complaint which the defendants knew to be false were the allegations that (1) defendant DON SOPHISTICATES believed on March 23, 1979, that General Mills was going to abandon the KIMBERLY trademark [paragraph 12], and that (2) samples of merchandise bearing the name KIMBERLY as a trademark of defendant DON SOPHISTICATES were offered for sale on March 30, 1979 [paragraph 13], and that (3) defendant DON SOPHISTICATES entertained a belief that General Mills no longer planned to use the KIMBERLY mark as a result of a meeting on April 30, 1979 [paragraph 16] and

that (4) defendant DON SOPHISTICATES began shipping merchandise in interstate commerce bearing the KIMBERLY trademark on May 7, 1979 [paragraph 19], and that (5) defendant DON SOPHISTICATES used the "KIMBERLY CLUB" label without inclusion of the registration-notice ® [paragraph 19], and that (6) the defendants have established valuable businesses under the goodwill of the KIMBERLY trademark since as early as May 8, 1979 [paragraph 29].

c. The defendants additionally filed in the trademark action an affidavit executed by defendant ROUNICK containing and reiterating substantially the same false allegations as were contained in the defendants' trademark complaint. (A copy of the ROUNICK affidavit is annexed as Exhibit I.)

d. The same false allegations as are contained in the defendants' trademark complaint (Exhibit H) are also contained in the ROUNICK affidavit (Exhibit I) at paragraphs 4, 5, 6, 9, 10 and 12. The defendants knew that these averments in the ROUNICK affidavit were false when riled in the trademark action.

e. On the basis of these knowingly false averments in the verified trademark complaint and ROUNICK affidavit, the defendants averred in the trademark complaint that (1) DON SOPHISTICATES' purported initial shipment-date of May 7, 1979, inured to the benefit of defendants MANHATTAN and BAYARD by reason of the aforementioned assignment (Exhibit F) [paragraphs 26-27], and that (2) this purported initial shipment-date of May 7, 1979, gave the defendants a

calendar priority over plaintiff SWEATER BEE in use of the KIMBERLY trademark.

f. The defendants moved for a preliminary injunction in the trademark action seeking to enjoin plaintiff SWEATER BEE from use of the KIMBERLY trademark, based upon the knowingly false trademark complaint and upon the knowingly false affidavit of defendant ROUNICK.

g. The defendants obtained from the District Court in the trademark action an injunction against plaintiff SWEATER BEE's use of the KIMBERLY mark, based upon the knowlingly false trademark complaint and ROUNICK affidavit. (See District Court judgment containing the injunction as Exhibit J.)

h. But for the defendants' knowingly false averments in the

trademark complaint and in the affidavit of defendant ROUNICK, the defendants never would have commenced the trademark action against plaintiff SWEATER BEE, and plaintiff SWEATER BEE never would have waived further discovery, trial or jury trial in the trademark action, and an injunction never would have issued against plaintiff SWEATER BEE in the trademark action.

27. In submitting their knowingly false verified complaint and the knowingly false ROUNICK affidavit in the trademark action, the defendants were aware that:

a. SWEATER BEE had realized far greater marketing and good will under the KIMBERLY trademark than all the defendants combined (see paragraph 19, supra); and that

b. The KIMBERLY trademark

represented a trademark of such importance, good will and prestige in the garment industry that a market had developed for KIMBERLY apparel itself for which other apparel could not reasonably be substituted.

28. The defendants perpetrated their fraud and perjury in the trademark action with knowing disregard of SWEATER BEE's rights or concurrent rights in the KIMBERLY trademark.

29. As a proximate result of the defendants' fraud and perjury in restraint of competition, the plaintiff SWEATER BEE:

a. lost sales and patronage under the KIMBERLY trademark during the pendency of the trademark action and thereafter, and

b. suffered disparagement of plaintiff SWEATER BEE's corporate name, good will, and legitimate

rights of concurrent ownership in the KIMBERLY trademark, and

c. was barred from effective access to the District Court in litigating its entitlement to the KIMBERLY mark in the trademark action wherein the defendants had submitted their knowingly false verified complaint and the knowingly false ROUNICK affidavit.

30. Plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000) as a proximate result of the defendants' fraud and perjury in restraint of competition.

FIRST CLAIM FOR RELIEF

31. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30 of this complaint.

32. The defendants conspired among themselves and perpetrated their fraud

and perjury in the trademark action with the specific intent and result of restraining lawful competition by SWEATER BEE in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1.

SECOND CLAIM FOR RELIEF

33. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30 of this complaint.

34. The defendants conspired among themselves and perpetrated their fraud and perjury in the trademark action with the specific intent and result of restraining lawful competition by plaintiff SWEATER BEE in the marketing of women's wearing apparel at the wholesale level throughout the United States, in violation of Section 1 of the Sherman

Act, 15 U.S.C. § 1.

THIRD CLAIM FOR RELIEF

35. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30 of this complaint.

36. The defendants perpetrated their fraud and perjury in the trademark action against SWEATER BEE with the specific intent and result of achieving and/or attempting to achieve an improper monopoly in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

FOURTH CLAIM FOR RELIEF

37. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30 of this complaint.

38. The defendants conspired among themselves and perpetrated their fraud

and perjury in the trademark action with the specific intent of achieving an improper monopoly in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

FIFTH CLAIM FOR RELIEF

39. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30 of this complaint.

40. When the present defendants commenced the trademark action, the present defendants knew and were aware that from April 25, 1979, to May 15, 1979, DON SOPHISTICATES had been a jobber of KIMBERLY apparel under the KIMBERLY trademark of General Mills and that General Mills was the origin of DON SOPHISTICATES' shipments of KIMBERLY apparel during that interval (April 25,

1979 - May 15, 1979).

41. Nevertheless, the present defendants, after concealing the shipments prior to May 7, 1979, made knowingly false designations (in the trademark complaint and ROUNICK affidavit) that the origin of DON SOPHISTICATES' shipments of KIMBERLY apparel from May 7, 1979 - May 15, 1979 was DON SOPHISTICATES. These knowingly false designations of origin were in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

SECTION II

FOUR ANTITRUST CLAIMS AND ONE FALSE-DESIGNATION-OF-ORIGIN CLAIM BASED UPON (1) THE PREVIOUSLY ALLEGED FRAUD AND PERJURY OF THE PRESENT DEFENDANTS IN THE TRADEMARK ACTION, WHEN COMBINED WITH (2) THE PRESENT DEFENDANTS' FRAUDULENT CONCEALMENT OF DOCUMENTS DURING PRE-TRIAL DISCOVERY AND/OR FRAUD UPON THE COURT IN THE TRADEMARK ACTION (SIXTH THROUGH TENTH CLAIMS FOR RELIEF)

COMMON ALLEGATIONS IN SIXTH THROUGH TENTH CLAIMS FOR RELIEF

42. Plaintiff SWEATER BEE hereby in-

corporates the allegations of paragraphs 11-30 of this complaint.

43. As a continuation and integral part of the defendants' fraud and perjury in the trademark action, the defendants concealed the fraudulent nature of their trademark complaint and ROUNICK affidavit by fraudulently withholding evidence during the discovery process in the trademark action, as follows:

a. The present defendants commenced the trademark action against SWEATER BEE simultaneously with the issuance of an order to show cause for a preliminary injunction against SWEATER BEE. SWEATER BEE was allowed 13 days to serve all papers in opposition to the motion by the present defendants (then plaintiffs) for a preliminary injunction in the trademark action.

b. During this highly expedited

motion in the trademark action, the parties were allowed discovery on an expedited basis. SWEATER BEE thus requested that the defendants produce all documents (other than the exhibits attached to the motion for preliminary injunction) showing alleged interstate shipment of goods under the KIMBERLY trademark by DON SOPHISTICATES. The present defendants (plaintiffs in the trademark action) represented that only one such document existed. (A copy of SWEATER BEE's mailgram confirming the defendants' representation is annexed as Exhibit K.)

c. Pursuant to SWEATER BEE's discovery request in the trademark action, the defendants produced only United Parcel Service receipts for post-abandonment shipments (i.e., post-May 7, 1979 shipments) of KIM-

BERLY apparel by DON SOPHISTICATES. (See copies of United Parcel Service receipts produced by defendants as Exhibit L.)

d. The present defendants fraudulently and intentionally withheld from the expedited discovery process in the trademark action, inter alia, those invoices of DON SOPHISTICATES showing the pre-abandonment shipments of KIMBERLY apparel by DON SOPHISTICATES (pre-May 7, 1979, invoices in Exhibit D). This fraudulently concealed evidence would have revealed DON SOPHISTICATES' position either as a mere jobber or licensee/permittee in KIMBERLY apparel or as an infringer of the KIMBERLY trademark.

44. In addition to, or in the alternative to, the defendants' fraudulent concealment of documents during pre-trial

discovery in the trademark action, the defendants also perpetrated a fraud upon the Court in the trademark action, as follows:

a. In the trademark action, counsel-of-record for the present defendants were assisted by Pennie & Edmonds, Esqs. Pennie & Edmonds prepared the ROUNICK affidavit (Exhibit I).

b. In preparing the ROUNICK affidavit, Pennie & Edmonds knew and were aware that defendant DON SOPHISTICATES had made shipments of apparel under the "KIMBERLY ® CLUB" label which <u>included</u> the registration-notice ®. (See letter from DON SOPHISTICATES to Pennie & Edmonds as Exhibit G.)

c. Nevertheless Pennie & Edmonds prepared the ROUNICK affidavit to aver falsely that DON SOPHISTICATES

had shipped apparel under the "KIMBERLY CLUB" label which excluded the registration-notice ®. (See paragraph 12 of ROUNICK affidavit annexed as Exhibit I.)

d. The defendants' knowing concealment of the registration-notice ® and the defendants' knowing deletion of the ® from the ROUNICK affidavit with the aid and assistance of Pennie & Edmonds constitutes a material misrepresentation (paragraphs 24(c)-24(d), supra) and a fraud upon this Court in the trademark action.

45. In reliance on the defendants' production of only the United Parcel Service receipts (Exhibit L) and of no other documents in discovery in the trademark action, and in reliance on the misrepresentations of which Pennie & Edmonds were aware in the ROUNICK

affidavit, plaintiff SWEATER BEE agreed to terminate discovery in the trademark action and waived trial and trial by jury which were then still timely available to SWEATER BEE as a matter of right in the trademark action.

46. But for the defendants' fraudulent concealment of documents during discovery and/or fraud upon the Court in the trademark action, plaintiff SWEATER BEE never would have waived further discovery, trial or trial by jury which were then still timely available to SWEATER BEE as a matter of right, and the injunction never would have issued against SWEATER BEE in the trademark action.

47. In perpetrating their fraud, perjury, fraudulent concealment of documents and/or fraud upon the Court in the trademark action, the present defendants committed the following violation(s) of law:

SIXTH CLAIM FOR RELIEF

48. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the FIRST CLAIM FOR RELIEF (conspiracy to restrain trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

SEVENTH CLAIM FOR RELIEF

49. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the SECOND CLAIM FOR RELIEF (conspiracy to restrain trade and commerce in women's wearing apparel); and/or

EIGHTH CLAIM FOR RELIEF

50. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the THIRD CLAIM FOR RELIEF (monopoly and/or attempted monopoly in trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

NINTH CLAIM FOR RELIEF

51. Plaintiff SWEATER BEE hereby

incorporates the allegations of liability in the FOURTH CLAIM FOR RELIEF (conspiracy to monopolize trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

TENTH CLAIM FOR RELIEF

52. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the FIFTH CLAIM FOR RELIEF (false designation of origin of DON SOPHISTICATES' shipments of KIMBERLY apparel).

SECTION III

FOUR ANTITRUST CLAIMS AND ONE FALSE-DESIGNATION-OF-ORIGIN CLAIM BASED UPON (1) THE PREVIOUSLY ALLEGED FRAUD AND PERJURY OF THE PRESENT DEFENDANTS IN THE TRADEMARK ACTION, WHEN COMBINED WITH (2) MALICIOUS PROSECUTION OF THE TRADEMARK ACTION (ELEVENTH THROUGH FIFTEENTH CLAIMS FOR RELIEF)

COMMON ALLEGATIONS IN ELEVENTH THROUGH FIFTEENTH CLAIMS FOR RELIEF

53. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-30, or in the alternative the allegations of paragraphs 11-30 and 43-

46, of this complaint.

54. The defendants not only employed fraud and perjury in the commencement and prosecution of the trademark action, but also commenced and prosecuted the trademark action (1) with malice, and (2) without probable cause to believe in the merits of the claims asserted in the trademark action, and (3) for a purpose other than that of securing the adjudication of the claims on which the trademark action was purportedly based, to wit: The present defendants commenced and prosecuted the trademark action for the purpose of compensating for the defendants' own lack of success in competing with SWEATER BEE in the marketplace, by using the injunctive process of this Court improperly as a substitute for the marketplace in restraining SWEATER BEE as a legitimate competitor who had already achieved far greater sales and good will

than all defendants combined in the marketing of women's wearing apparel under the KIMBERLY trademark at the wholesale level throughout the United States.

55. The injunction in the trademark action restrained and interfered with the property of plaintiff SWEATER BEE. Plaintiff SWEATER BEE procured a reversal of the injunction on appeal in the trademark action.

56. In perpetrating their fraud, perjury and malicious prosecution of the trademark action, the present defendants committed the following violation(s) of law:

ELEVENTH CLAIM FOR RELIEF

57. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the FIRST CLAIM FOR RELIEF (conspiracy to restrain trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

TWELFTH CLAIM FOR RELIEF

58. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the SECOND CLAIM FOR RELIEF (conspiracy to restrain trade and commerce in women's wearing apparel); and/or

THIRTEENTH CLAIM FOR RELIEF

59. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the THIRD CLAIM FOR RELIEF (monopoly and/or attempted monopoly in trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

FOURTEENTH CLAIM FOR RELIEF

60. Plaintiff SWEATER BEE hereby incorporates the allegations of liability in the FOURTH CLAIM FOR RELIEF (conspiracy to monopolize trade and commerce in women's wearing apparel under the valuable KIMBERLY trademark); and/or

FIFTEENTH CLAIM FOR RELIEF

61. Plaintiff SWEATER BEE hereby

incorporates the allegations of liability in the FIFTH CLAIM FOR RELIEF (false designation of origin of DON SOPHISTICATES' shipments of KIMBERLY apparel).

SECTION IV

FOUR ANTITRUST CLAIMS AND ONE FALSE-DESIGNATION-OF-ORIGIN CLAIM BASED UPON THE CORPORATE DEFENDANTS' MISREPRESENTATIONS TO THE GARMENT INDUSTRY AFTER THE TRADEMARK ACTION (SIXTEENTH THROUGH TWENTIETH CLAIMS FOR RELIEF)

COMMON ALLEGATIONS IN SIXTEENTH THROUGH TWENTIETH CLAIMS FOR RELIEF

62. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-21 of this complaint.

63. Apart from the defendants' perjured complaint and the perjured affidavit of defendant ROUNICK in the trademark action, the corporate defendants pursued other conduct in furtherance of their conspiracy and/or in furtherance of their actual or attempted monopoly in restraint of trade and commerce.

64. The corporate defendants made and authorized knowing misrepresentations to the garment industry and to actual and potential customers of plaintiff SWEATER BEE that the corporate defendants enjoyed exclusive rights in the trademark KIMBERLY, when in fact the corporate defendants knew that plaintiff SWEATER BEE enjoyed concurrent rights of ownership in the same KIMBERLY trademark.

65. In addition, the present corporate defendants have refused and continue to refuse to use an obligatory source-reference (such as "by Manhattan" or "by Bayard") in conjunction with the trademark KIMBERLY.

66. Under this Court's final order and judgment entered after appeal in the trademark action on February 27, 1981, the present corporate defendants were aware of the legal obligation imposed on all parties to use a source-reference

(such as "by Manhattan" or "by Bayard") in conjunction with the trademark or tradename KIMBERLY. (See paragraph 7 of final judgment after appeal in trademark action as Exhibit M.)

67. The corporate defendants were aware that plaintiff SWEATER BEE was and is properly using the source-reference "by Banff" in compliance with this Court's final judgment after appeal in the trademark action.

68. Nevertheless, following entry of this Court's final judgment after appeal in the trademark action on February 27, 1981, the corporate defendants conspired to refuse, and/or continuously, knowingly, and intentionally refused, to use an obligatory source-reference in conjunction with the KIMBERLY trademark, as follows:

a. After the conclusion of the trademark action, the corporate

defendants retained and used a telephone listing under the trademark and/or tradename "KIMBERLY" without a source reference in the Manhattan telephone directory from February 1981 continuously until the present date. (See corporate defendants' telephone listing in the 1981-1982 Manhattan white pages telephone directory as Exhibit N.)

b. Also after the conclusion of the trademark action, the corporate defendants retained and used a lobby-directory listing under the trademark and/or tradename "KIMBERLY" without a source-reference in the lobby of their office building in Manhattan from February 1981 continuously until the present date. (See corporate defendants' lobby listing as Exhibit O.)

c. Also after the conclusion of

the trademark action, the corporate defendants retained and used listings and advertisements under the trademark and/or tradename "KIMBERLY" without a source-reference in the catalog published by their office building for distribution to apparel-buyers from February 1981 continuously until the present date. (See corporate defendants' exemplificative listing and advertisement in present office building catalog as Exhibit P).

d. Also after the conclusion of the trademark action, the corporate defendants approved and maintained a consistent pattern and practice of advertising and commercializing their apparel under the trademark and/or tradename "KIMBERLY" without a source-reference in numerous trade shows and trade-show catalogs

throughout the United States from February 1981 continuously until the present date. (See corporate defendants' exemplificative listings in trade-show catalogs as Exhibit Q.)

e. In addition to the trade-show catalogs annexed as Exhibit Q, the corporate defendants have listed, commercialized and advertised their KIMBERLY apparel without a source-reference in numerous other trade-show catalogs since February 1981. Plaintiff SWEATER BEE prays leave of Court to add reference to such additional trade-show catalogs at such time as plaintiff SWEATER BEE comes into possession of such additional trade-show catalogs.

f. As of the date of this amended complaint, the corporate defendants continue to use the trademark and/or tradename "KIMBERLY"

without a source-reference in their telephone, lobby, building-catalog, and trade-show listings more than one (1) year after this Court imposed a source-reference requirement.

69. In their past and present refusal to use an obligatory source-reference with the trademark and/or tradename KIMBERLY, the corporate defendants have conspired to do, and have knowingly done, the following:

a. The corporate defendants disparaged plaintiff SWEATER BEE's competitive position in the marketing of women's wearing apparel under the KIMBERLY trademark, and/or

b. The corporate defendants have engaged in unfair competition with the plaintiff SWEATER BEE, and/or

c. The corporate defendants improperly enhanced the trade-recognition and trade-acceptance of

their own KIMBERLY apparel and simultaneously disparaged and prejudiced the trade-recognition and trade-acceptance of plaintiff SWEATER BEE's KIMBERLY apparel, and/or

d. The corporate defendants misrepresented their own KIMBERLY apparel to be the "real KIMBERLY" without a source-reference, in contrast to the KIMBERLY apparel of plaintiff SWEATER BEE which has been listed and commercialized with the source-reference "by Banff," and/or

e. The corporate defendants misrepresented to the public and to the garment industry that the corporate defendants owned exclusive rights in the trademark and tradename "KIMBERLY," when in fact the corporate defendants knew that plaintiff SWEATER BEE owned rights of concurrent ownership in the same KIMBERLY

trademark and tradename pursuant to the judgments of the Second Circuit and of this Court in the trademark action.

70. The corporate defendants actually pursued and/or conspired to pursue this course of conduct with the intent and result that plaintiff SWEATER BEE:

a. lost sales and patronage under the KIMBERLY trademark, and

b. suffered disparagement of its corporate name, goodwill and legitimate rights of concurrent ownership in the KIMBERLY trademark.

71. By reason of the foregoing, plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000).

72. In perpetrating the foregoing, the present corporate defendants committed the following violation(s) of law:

SIXTEENTH CLAIM FOR RELIEF

73. The corporate defendants conspired among themselves, disparaged SWEATER BEE and its KIMBERLY apparel, and made their misrepresentations to the garment industry and to the public with the specific intent and result of restraining lawful competition by SWEATER BEE in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, and/or

SEVENTEENTH CLAIM FOR RELIEF

74. The corporate defendants conspired among themselves, disparaged SWEATER BEE and its KIMBERLY apparel, and made their misrepresentations to the garment industry and to the public with the specific intent and result of restraining lawful competition by plaintiff SWEATER BEE in the marketing of women's wearing

apparel at the wholesale level throughout the United States, in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, and/or

EIGHTEENTH CLAIM FOR RELIEF

75. The corporate defendants disparaged SWEATER BEE and its KIMBERLY apparel and made their misrepresentations to the garment industry and to the public with the specific intent and result of achieving and/or attempting to achieve an improper monopoly in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2, and/or

NINETEENTH CLAIM FOR RELIEF

76. The corporate defendants conspired among themselves, disparaged SWEATER BEE and its KIMBERLY apparel, and made their misrepresentations to the

garment industry and to the public with the specific intent of achieving an improper monopoly in the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States, in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2, and/or

TWENTIETH CLAIM FOR RELIEF

77. The corporate defendants falsely designated the origin of the trademark KIMBERLY, in violation of 15 U.S.C. § 1125(a).

SECTION V

ANTITRUST CLAIM BASED ON PREDATORY PRICING BY DEFENDANTS MANHATTAN AND BAYARD

TWENTY-FIRST CLAIM FOR RELIEF

78. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-21 of this complaint.

79. The defendants MANHATTAN AND BAYARD have engaged in a pattern of

predatory pricing of women's apparel under the KIMBERLY trademark during the trademark action between the parties and thereafter with the intent and result of using said defendants' improperly-achieved monopoly under the trademark injunction as a means of restraining re-entry into the KIMBERLY market by plaintiff SWEATER BEE at a price-level which is consonant with the KIMBERLY image and tradition.

80. In particular, the defendants MANHATTAN and BAYARD have affixed the KIMBERLY trademark to certain low-end apparel at wholesale prices of $40.00 or less, when, by contrast, the KIMBERLY image, tradition and trade recognition for such apparel are consonant with higher-end quality at wholesale prices of $50.00 or more.

81. The defendants MANHATTAN and BAYARD have affixed the KIMBERLY mark to

such low-end apparel with the intent and result of restraining re-entry into the KIMBERLY market by plaintiff SWEATER BEE after the vacatur of the trademark injunction at a price level and quality which are consonant with the KIMBERLY image and tradition.

82. By reason of the foregoing, plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000), as a proximate result of the violations of Sections 1 and/or 2 of the Sherman Act, 15 U.S.C. §§ 1 and/or 2, by defendants MANHATTAN and BAYARD.

SECTION VI

CLAIMS BASED UPON DEFENDANTS' WRONGFUL INJUNCTION, MALICIOUS PROSECUTION AND/OR ABUSE OF PROCESS IN VIOLATION OF FEDERAL COMMON LAW (TWENTY-SECOND AND TWENTY-THIRD CLAIMS FOR RELIEF)

TWENTY-SECOND CLAIM FOR RELIEF

83. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs

11-21 of this complaint.

84. The defendants did procure and maintain in the trademark action an injunction wrongfully restraining plaintiff SWEATER BEE from use of the KIMBERLY trademark (Exhibit J) notwithstanding that plaintiff SWEATER BEE was a concurrent owner of the same KIMBERLY trademark.

85. The defendants commenced the trademark action against plaintiff SWEATER BEE and procured and maintained the wrongful injunction against plaintiff SWEATER BEE in strict liability for the damages sustained by plaintiff SWEATER BEE and/or in negligent, reckless and/or intentional disregard of the concurrent rights of ownership which plaintiff SWEATER BEE enjoyed in the KIMBERLY trademark.

86. By reason of the defendants' wrongful injunction in violation of

federal common law, plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000).

TWENTY-THIRD CLAIM FOR RELIEF

87. Plaintiff SWEATER BEE hereby incorporates the allegations of paragraphs 11-21 and 54-55 of this complaint.

88. By reason of the defendants' malicious prosecution and/or abuse of process in violation of federal common law, plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000).

SECTION VII

PENDENT CLAIMS UNDER NEW YORK STATE LAW (TWENTY-FOURTH THROUGH TWENTY-SIXTH CLAIMS FOR RELIEF)

TWENTY-FOURTH CLAIM FOR RELIEF

89. The facts alleged and incorporated in one or more of the claims for relief numbered FIRST through TWENTY-FIRST

inclusive of this complaint constitute violation(s) of Section 340 of the New York General Business Law, proximately causing plaintiff SWEATER BEE to sustain and to continue to sustain damages in the sum of twenty million dollars ($20,000,000).

TWENTY-FIFTH CLAIM FOR RELIEF

90. The facts alleged and incorporated in one or more of the claims for relief numbered FIRST through TWENTY-FIRST inclusive of this complaint constitute violation(s) of the New York common law of fraud, unfair competition, interference with contractual relations, interference with advantageous business relations, commercial disparagement and/or prima facie tort, by reason of which plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000).

TWENTY-SIXTH CLAIM FOR RELIEF

91. The facts alleged and incorporated in paragraphs 11-21 and 54-55 of this complaint constitute an abuse of process and/or malicious prosecution in violation of the common law of New York, by reason of which the plaintiff SWEATER BEE has sustained and will continue to sustain damages in the sum of twenty million dollars ($20,000,000).

SECTION VIII

PUNITIVE DAMAGES

TWENTY-SEVENTH CLAIM FOR RELIEF

92. Plaintiff SWEATER BEE hereby incorporates the previous claims for relief numbered TWENTY-SECOND, TWENTY-THIRD, TWENTY-FIFTH, and TWENTY-SIXTH of this complaint, so that each and every such claim for relief is separately supplemented with the following allegation:

93. The defendants' actions were wilful and were perpetrated with evil

motive and intent, as a result of which the plaintiff SWEATER BEE should be awarded the sum of twenty million dollars ($20,000,000) as punitive damages against the defendants, jointly and severally.

SECTION IX

CLAIM FOR CONDITIONAL VACATUR OF CERTAIN FINDINGS OF FACT IN THE TRADEMARK ACTION

INTRODUCTION TO TWENTY-EIGHTH CLAIM FOR RELIEF

94. In this TWENTY-EIGHTH CLAIM FOR RELIEF plaintiff SWEATER BEE seeks conditional vacatur of certain findings of fact concerning DON SOPHISTICATES (hereafter referred to as "trademark findings") in the trademark action. The trademark findings were made as a result of the defendants' fraud and perjury in the trademark action. The relief presently sought in this TWENTY-EIGHTH CLAIM FOR RELIEF is sought conditionally because there are numerous separate

reasons why these trademark findings are not binding in this present action. As a result, no relief from these trademark findings is now necessary. However, if it is determined that the trademark findings are otherwise binding in this present action, then plaintiff SWEATER BEE now seeks relief from the trademark findings by reason of the defendants' fraudulent conduct in obtaining them.

95. Accordingly, the relief sought in this TWENTY-EIGHTH CLAIM FOR RELIEF is sought only as a protective measure in the event that the trademark findings are otherwise binding herein.

TWENTY-EIGHTH CLAIM FOR RELIEF

96. Plaintiff SWEATER BEE hereby incorporates each and every previous allegation in this complaint.

97. Plaintiff SWEATER BEE procured a reversal of the injunction in the trademark action on grounds other than the

defendants' fraud, perjury and conspiracy (Exhibit A). Plaintiff SWEATER BEE did not become aware of the defendants' fraud, perjury and conspiracy until after the trademark action and appeal were concluded, as follows:

98. In or about February 1981 (after the conclusion of the trademark appeal), the defendant DON SOPHISTICATES filed a petition for relief under Chapter 11 of the Bankruptcy Act.

99. A major creditor of defendant DON SOPHISTICATES is Citibank, N.A., who apparently was factoring the receivables of defendant DON SOPHISTICATES.

100. Subsequent to the filing of the Chapter-11 petition by defendant DON SOPHISTICATES, Citibank sent one or more investigators to Hong Kong for the purpose of examining DON SOPHISTICATES' records and inventory.

101. Citibank's investigation un-

covered substantial falsification by defendant DON SOPHISTICATES of its records and invoices particularly relating to merchandise in Hong Kong intended for shipment into the United States.

102. As a result of this falsification, the Board of Directors of defendant DON SOPHISTICATES convened an emergency meeting on or about April 20, 1981. At this emergency meeting, the Board fired defendant ROUNICK as Chairman and as Chief Executive Officer of defendant DON SOPHISTICATES. (See news article as Exhibit R.)

103. As a result of the Chapter-11 proceeding commenced by DON SOPHISTICATES and as a result of the firing of defendant ROUNICK, certain documents came into the possession of plaintiff SWEATER BEE evidencing the fraud and perjury of the present defendants in the trademark action and evidencing the present

defendants' fraud upon the Court in the trademark action.

104. Among the documents so coming into the possession of plaintiff SWEATER BEE are:

a. The aforementioned invoices showing DON SOPHISTICATES' pre-abandonment shipments of KIMBERLY apparel (pre-May 7, 1979, invoices in Exhibit D), and

b. The aforementioned letter reciting DON SOPHISTICATES' shipments of KIMBERLY apparel under an apparently registered KIMBERLY trademark (Exhibit G).

105. In light of the defendants' fraud and perjury in the trademark action, plaintiff SWEATER BEE could not have reasonably discovered the existence of the documents mentioned in the immediately preceding paragraph in sufficient time for the hearing on the present

defendants' motion for the injunction in the trademark action.

106. The findings of fact pertaining to DON SOPHISTICATES (the "trademark findings") in the trademark action are not binding in this present action for, inter alia, one or more of the following reasons:

a. The judgments entered in the trademark action are "without prejudice" to the present action by reason of a stipulation signed by the parties in the trademark action (Stipulation annexed as Exhibit S);

b. The judgments entered in the trademark action are "not res judicata" in the present action by reason of the stipulation signed by the parties in the trademark action (Exhibit S);

c. The trademark findings are dicta and are not essential to the

judgment of the Second Circuit in the trademark action awarding concurrent ownership of the KIMBERLY trademark.

d. The trademark findings were procured by the present defendants' fraud and perjury in the trademark action.

e. The trademark findings were procured by the present defendants' fraud upon the Court in the trademark action.

f. The trademark findings are, by operation of law, not binding in this action.

g. It is inequitable and contrary to justice to allow the trademark findings to be binding in this action.

107. Alternatively, if it is determined that the trademark findings are otherwise binding in this action, then such findings should be vacated for one or more of the following reasons:

a. Said findings were procured by the fraud and/or perjury of the defendants in submitting the knowingly false trademark complaint and ROUNICK affidavit in the trademark action.

b. Said findings were procured by the fraud of the present defendants in their withholding of documents during pre-trial discovery in the trademark action, as alleged in paragraphs 43(a)-43(d) of this complaint.

c. Said findings were procured by the present defendants' fraud upon the Court in the trademark action, as alleged in paragraphs 44(a)-44(d) of this complaint.

108. Relief may be had from the findings concerning DON SOPHISTICATES in the trademark action, and such relief may be had from this Court in the first instance without leave from the Court of Appeals. See Standard Oil Co. of California v.

U.S., 429 U.S. 17 (1976).

WHEREFORE, plaintiff SWEATER BEE demands judgment against the defendants, jointly and severally, as indicated:

1. Under one or more claims for relief numbered FIRST through FOURTH, SIXTH through NINTH, ELEVENTH through FOURTEENTH, SIXTEENTH through NINETEENTH, and TWENTY-FIRST in this complaint, for the sum of Sixty Million Dollars ($60,000,000) representing three-fold the damages sustained by plaintiff SWEATER BEE as a result of the defendants' conduct in violation of 15 U.S.C. §§ 1 and/or 2.

2. Under one or more claims for relief numbered FIFTH, TENTH, FIFTEENTH, and TWENTIETH in this complaint, for the sum of Sixty Million Dollars ($60,000,000) representing three-fold the damages sustained by plaintiff SWEATER BEE as a result of

the defendants' conduct in violation of 15 U.S.C. § 1125(a).

3. Under the TWENTY-FOURTH claim for relief in this complaint, for the sum of Sixty Million Dollars ($60,000,000) representing three-fold the damages sustained by plaintiff SWEATER BEE as a result of the defendants' conduct in violation of Section 340 of the New York General Business Law.

4. Under the claims for relief numbered TWENTY-SECOND, TWENTY-THIRD, TWENTY-FIFTH and TWENTY-SIXTH in this complaint, for the sum of Twenty Million Dollars ($20,000,000) representing the damages sustained by plaintiff SWEATER BEE.

5. Under the TWENTY-SEVENTH claim for relief in this complaint, for the sum of Twenty Million Dollars ($20,000,000) as punitive damages.

6. Under the TWENTY-EIGHTH claim for relief in this complaint, setting aside and/or vacating the findings of fact by this Court in the trademark action concerning the present defendant DON SOPHISTICATES, to the extent that such findings are otherwise binding in this action.

7. The costs and reasonable attorneys' fees incurred by plaintiff SWEATER BEE in the prosecution of this action.

8. Any additional relief which this Court deems appropriate.

Dated: New York, New York
March 24, 1982

/s/ Dennis Grossman
Dennis Grossman
Attorney for Plaintiff
60 East 42 Street (Suite 1036)
New York, New York 10165
(212) 599-2410

Neil S. Kramer, P.C.
Of Counsel

Eileen King
Legal Assistant.

[Exhibit N to Petitioner's Amended Complaint as a Matter of Course, which Is Appendix E]

Page 782 of 1981-82 Manhattan telephone directory which includes, inter alia, the following telephone listing:

Kimberly 1400 Bway.....354-7911

[Exhibit O to Petitioner's Amended Complaint as a Matter of Course, which Is Appendix E]

Photograph of lobby directory listing at 1400 Broadway which includes, inter alia, the following listings:

KIMBERLY.....35
KIMBERLY SPORT.....35
KIM'S BY KIMBERLY.....35

[Exhibit P to Petitioner's Amended Complaint as a Matter of Course, which is Appendix E]

1400 Broadway building directory which includes, inter alia, the following advertisement:

KIMBERLY

the fashion legend . . .

the classic taste . . .

the superior design

and quality . . .

now . . . moderately

priced

for today's woman . . .

1400 BROADWAY NEW YORK, N.Y. 10018

35th FLOOR TEL: (212) 354-7911

[Exhibit Q to Petitioner's Amended Complaint as a Matter of Course, which is Appendix E]

(Photocopies of numerous advertisements in trade show catalogs; advertisements for "Kimberly" without a source-reference)

APPENDIX F

Answer to Amended Complaint as a Matter of Course; and Counterclaims

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SWEATER BEE BY BANFF, LTD., Plaintiff, -against- MANHATTAN INDUSTRIES, INC., BAYARD SHIRT CORPORATION, DON SOPHISTICATES, INC., and HERBERT ROUNICK, Defendants.	81 Civ. 3975 (VLB) ANSWER TO THE AMENDED COMPLAINT AND COUNTER-CLAIMS OF DEFENDANTS MANHATTAN INDUSTRIES, INC. AND BAYARD SHIRT CORPORATION

Defendants Manhattan Industries, Inc. ("Manhattan") and Bayard Shirt Corporation ("Bayard") for their answer to the Amended Complaint and Counterclaims:

1. State that they are without knowledge or information sufficient to form a belief as to the truth of the averments of paragraph 1 thereof, except that plaintiff purports to bring this action

and invoke the jurisdiction of this Court pursuant to the statutes and common law principles referred to therein.

2. State that they are without knowledge or information sufficient to form a belief as to the truth of the averments of paragraphs 2 and 4 thereof except state that on information and belief defendant Herbert Rounick was at one time an officer and/or director of defendant Don Sophisticates, Inc. ("Don Sophisticates").

3. Deny the allegations of paragraph 3 thereof except state that: (1) Manhattan is a corporation duly organized and existing under the laws of the State of New York, having its principal place of business at 1271 Avenue of the Americas, New York, New York; (2) Bayard is a wholly-owned subsidiary of Manhattan, and is a corporation duly organized and existing under the laws of the State of

New York, having its principal place of business at 2600 Douglas Road, Coral Gables, Florida; (3) on information and belief, defendant Don Sophisticates was, until February 1981, a corporation duly organized and existing under the laws of the State of New York, having its principal place of business at 530 Seventh Avenue, New York, New York; (4) defendants Manhattan and Bayard are and were competitors of plaintiff and hundreds or thousands of other companies in the manufacture and distribution of women's wearing apparel in the United States; and (5) on information and belief, Don Sophisticates was a competitor of plaintiff in said business at least until February 1981.

4. Deny the averments of paragraphs 5 and 6 thereof, except state that plaintiff and Manhattan and Bayard were granted certain rights in the Kimberly

trademark by the judgment of this Court dated February 27, 1981 and refer to said judgment and to the opinion of the United States Court of Appeals for the Second Circuit for their contents.

5. Deny the averments of paragraphs 7, 8 and 9 thereof.

6. State that no response is called for by paragraph 10 thereof.

7. With respect to paragraph 11 thereof refer to their responses herein to the paragraphs referred to in said paragraph.

8. Deny the averments of paragraph 12 thereof, but state that the KIMBERLY trademark during the period of its ownership by General Mills, Inc. ("General Mills") had been used to identify ladies knitted outerwear - namely, dresses, sweaters, skirts, jackets and suits - and men's suits.

9. Admit the averments of paragraph

13 thereof.

10. Deny the averments of paragraph 14 thereof insofar as said allegations purport to establish a basis for defining a relevant market consisting solely of goods marketed under the KIMBERLY mark, but states that the KIMBERLY name has had significant value in the garment industry.

11. Deny the averments of paragraphs 15 and 16 thereof.

12. Admit the averments of paragraph 17 thereof, but state on information and belief that Manhattan and Bayard's assignor, Don Sophisticates had shipped goods under the KIMBERLY label at least as early as May 7, 1979.

13. Deny the averments of the first sentence of paragraph 18 thereof and as to the other averments of said paragraph, refer to the Women's Wear Daily Article dated May 16, 1979 and the letter dated

July 5, 1979 referenced therein for their contents.

14. Deny the averments of paragraph 19 thereof.

15. Deny the averments of paragraphs 20 and 21 thereof but state that, based on the opinion of the United States Court of Appeals for the Second Circuit, plaintiff was granted certain concurrent rights to the KIMBERLY mark as set forth in this Court's judgment of February 27, 1981.

16. Deny the averments of paragraphs 22, 23, 24, 25, 26, 27, 28, 29 and 30 and each subpart thereof, except state that it is without knowledge or information sufficient to form a belief as to the averments thereof concerning the activities and knowledge of Don Sophisticates.

17. With respect to paragraphs 31, 33, 35, 37, 42, 53 and 62 thereof refer to their responses herein to the para-

graphs referred to in said paragraphs.

18. Deny the averments of paragraphs 32, 34, 36, 38, 45, 46, 47, 54, 55, 56, 63, 64, 65, 67, 69 through 77, and 89 through 93 thereof.

19. Make no response to paragraphs 39, 40, 41, 52, 61, and 78 through 82 thereof, the claims stated in those paragraphs having been withdrawn by plaintiff.

20. Deny the averments of paragraph 43 thereof, except admit the averments of subparagraphs a and b thereof.

21. Deny the averments of paragraph 44 thereof, except state that they are without knowledge or information sufficient to form a belief as to the averments relating to Pennie & Edmonds knowledge and admit that Pennie & Edmonds were of counsel to defendant Don Sophsticates in the prior trademark action and prepared the Rounick affidavit.

22. With respect to paragraphs 48, 49, 50, 51, 57, 58, 59 and 60 thereof, refer to their responses herein to the paragraphs referred to in said paragraphs, and specifically deny any liability to plaintiff for such claims.

23. Deny the averments of paragraph 66 thereof except state that the Court's judgment of February 27, 1981 sets forth the circumstances under which Manhattan and Bayard may use the KIMBERLY trademark and refer to said judgment for its contents.

24. Deny the averments of paragraph 68 thereof, except state that at certain times between February 27, 1981 and the date of this answer, certain Manhattan/ Bayard goods, purely through an unintentional, inadvertent error at Bayard's plant in Florida were sent to certain customers with KIMBERLY labels and hang tags which did not bear the source

reference "BY BAYARD". After discovery of said mislabelling by Manhattan and Bayard, steps were taken to ensure that all labels on KIMBERLY garments contained an appropriate source reference. Manhattan and Bayard specifically deny any intention to violate or circumvent the Court's judgment of February 27, 1981.

25. Make no response to the averments of paragraphs 83 through 88 and 94 through 108 thereof, those claims of plaintiff having been dismissed by the Court.

FIRST DEFENSE

26. The Amended Complaint fails to state a claim upon which relief can be granted.

SECOND DEFENSE

27. This Court lacks jurisdiction over the subject matter of this action.

THIRD DEFENSE

28. Plaintiff's claims are barred in

whole or in part by res judicata and/or collateral estoppel.

FOURTH DEFENSE

29. Plaintiff's claims are barred by Rule 13(a) of the Federal Rules of Civil Procedure, in that all plaintiff's claims asserted herein based on the bringing of the prior trademark action were compulsory counterclaims in the prior trademark action between the parties styled Manhattan Industries, Inc. et al. v. Sweater Bee By Banff, Ltd., et al., 79 Civ. 5346 (VLB), but which plaintiff knowingly failed to assert therein before trial.

FIFTH DEFENSE

30. Plaintiff's claims are barred by waiver.

SIXTH DEFENSE

31. Plaintiff's claims are barred by estoppel.

SEVENTH DEFENSE

32. Plaintiff's claims relating to

defendants' alleged conduct subsequent to the completion of the prior trademark litigation, to the extent such claims are based in whole or in part on alleged violations of this Court's judgment of February 27, 1981, may not be brought in this Court, because said judgment provides in Paragraph 9 thereof for arbitration of "[a]ll disputes under or arising out of this judgment". Thus, all claims of plaintiff alleging violations of said judgment are subject to arbitration.

EIGHTH DEFENSE

33. Plaintiff has no claims against Manhattan and Bayard based on any conduct occurring subsequent to the conclusion of the prior trademark action because plaintiff's lack of success in marketing women's wearing apparel under the KIMBERLY trademark, if any, is due solely to plaintiff's conduct, including plaintiff's poor products, mismanagement

and/or failure to actively pursue sales under the KIMBERLY trademark.

NINTH DEFENSE

34. Plaintiff's claims relating to the prior trademark action brought by Manhattan and Bayard against plaintiff are without merit because that action was a good faith exercise of Manhattan's and Bayard's right to petition the government, pursuant to the First Amendment of the Constitution of the United States which includes the right of access to the courts, and cannot, therefore, be the basis for antitrust or other liability.

TENTH DEFENSE

35. Plaintiff has no claims against Manhattan and Bayard under Section 1 or Section 2 of the Sherman Act based on any alleged conspiracy occurring subsequent to the prior trademark action because (1) on information and belief, Don Sophisticates was not then engaged in the

business of manufacturing or distributing women's wearing apparel under the KIMBERLY trademark and could not have conspired with Bayard/Manhattan and (2) since Bayard is a wholly-owned subsidiary of Manhattan, Bayard and Manhattan are not separate, distinct entities capable of agreeing, combining or conspiring with each other. Therefore, there could have been no actionable conspiracy in which Manhattan/Bayard participated.

ELEVENTH DEFENSE

36. Plaintiff has no antitrust claims against Manhattan pursuant to Sections 1 or 2 of the Sherman Act relating to acts taken in the alleged relevant market claimed by plaintiff to consist of "the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States" because such alleged market is not a proper relevant market as defined

by the Sherman Act and related authorities.

TWELFTH DEFENSE

37. Plaintiff has no antitrust claims against Manhattan and Bayard based on any failure to use an appropriate source reference in connection with their use of the KIMBERLY trademark, because the failure to utilize a source reference cannot be the basis for an antitrust violation.

THIRTEENTH DEFENSE AND FIRST COUNTERCLAIM

38. Counterclaimant Manhattan is a corporation duly organized and existing under the laws of the State of New York, having its principal place of business at 1271 Avenue of the Americas, New York, New York. Counterclaimant Bayard is a wholly-owned subsidiary of Manhattan, and is a corporation duly organized and existing under the laws of the State of New York, having its principal place of

business at 2600 Douglas Road, Coral Gables, Florida.

39. Counterclaim defendant Sweater Bee by Banff, Limited is on information and belief, a corporation organized under the laws of the State of New York with its principal place of business at 1410 Broadway, New York, New York.

40. The matter in controversy exceeds the amount of $10,000 exclusive of interest and costs. This Court has jurisdiction of defendants Manhattan and Bayard's counterclaims under 15 U.S.C. § 15 and the principles of ancillary and pendent jurisdiction.

41. Manhattan/Bayard's counterclaims are based upon plaintiff's bad faith filing and prosecution of this lawsuit. Plaintiff's action is motivated not by a desire to pursue valid claims it believes it has against Manhattan/Bayard but purely by a goal of harassing and intimidat-

ing Manhattan/Bayard in their marketing of goods under the KIMBERLY trademark. By such harassment and intimidation, plaintiff hopes to force Manhattan/Bayard to cease marketing goods under the KIMBERLY trademark, leaving plaintiff as the only company to market goods under said trademark. Plaintiff's bad faith filing and prosecution of this action, therefore, constitutes unfair competition.

42. Manhattan and Bayard have been injured by plaintiff's conduct in filing and pursuing this action, in an amount as yet undetermined but which includes all the costs incurred by Manhattan and Bayard in this action, including attorneys fees.

FOURTEENTH DEFENSE AND
SECOND CONDITIONAL
COUNTERCLAIM

43. Manhattan and Bayard hereby repeat and reaver the averments of paragraphs 37 through 41 hereof.

44. Manhattan and Bayard bring this counterclaim against plaintiff under the Sherman Act, 15 U.S.C § 15 solely on a conditional basis. Manhattan and Bayard do not believe that the relevant market alleged by plaintiff consisting of "the marketing of women's wearing apparel under the valuable KIMBERLY trademark at the wholesale level throughout the United States" is an appropriate relevant market under the Sherman Act. However, if the Court or jury should determine that such a market exists and does constitute a relevant market for Sherman Act purposes, plaintiff's conduct in filing and pursuing this action represents an attempt to drive Manhattan and Bayard from such market with the specific intent of destroying competition in that market and an attempt to monopolize by plaintiff violative of the Sherman Act, Section 2 and the Donnelly Act, New York General

Business Law § 340. Since only plaintiff, defendant Don Sophisticates and Manhattan/Bayard arguably have the right to market KIMBERLY goods, plaintiff's attempt to monopolize presents a dangerous probability of success.

45. Manhattan and Bayard have been injured by plaintiff's conduct in an amount as yet undetermined but including at least all the costs they have incurred in ths action, including attorneys fees.

In addition to the above-asserted defenses and counterclaims, Manhattan and Bayard reserve the right to assert any additional defense which may appear proper following full discovery, as well as its rights to assert in a proper forum (including arbitration) any claims or counterclaims based on facts disclosed by such discovery or otherwise.

WHEREFORE, Manhattan and Bayard pray this Court as follows:

1. With respect to the Amended Complaint, for judgment dismissing with prejudice the Complaint as against them, together with the costs and disbursements of this action, and such other further relief in their favor as the Court may deem just and proper;

2. With respect to the First Counterclaim, that the Court enter a judgment in favor of defendants and against plaintiff in an amount to be determined, but including at least all the costs incurred by Manhattan and Bayard in this action, including attorneys' fees, plus interest;

3. With respect to the Second Counterclaim, that the Court enter a judgment in favor of defendants and against plaintiff in an amount to be determined which shall be trebled by the court, plus attorneys' fees, but including at least all the costs incurred

by Manhattan and Bayard in this action including attorneys' fees, plus interest;

4. That with respect to both of Manhattan and Bayard's counterclaims, the Court award such further relief as this Court may deem just and proper, together with their costs and disbursements.

December 30, 1983

DAVIS, MARKEL, DWYER & EDWARDS

by /s/ Thomas J. Sweeney, III
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APPENDIX G

Letter of Respondents' Counsel Notifying District Court of Respondents' Intention to Arbitrate Claims which Were Not Dismissed on the Merits

[Letterhead of
Davis, Markel, Dwyer & Edwards,
attorneys for defendants
Manhattan Industries, Inc. and
Bayard Shirt Corporation]

January 20, 1984

Notice of Intent to Arbitrate

Dear Sirs:

Manhattan Industries, Inc. and Bayard Shirt Corp. ("claimants") hereby give notice to Sweater Bee by Banff, Ltd. ("Sweater Bee"), and its counsel of their intention to arbitrate pursuant to paragraphs 9-12 of the Final Order and Judgment of the United States District Court for the Southern District of New York, Broderick, J., entered on February 27, 1981, in the action entitled Manhattan Industries, Inc. v. Sweater Bee by Banff, Ltd., 79 Civ. 5346 (the "Order"). Pursuant to paragraph 9 of the

Order, "all disputes under or arising out of this judgment . . . shall be resolved by an arbitration panel whose determination shall be final and binding. . . ."

The issues to be determined by this arbitration are:

(1) every dispute between claimants and Sweater Bee under or arising out of the Order that is asserted by Sweater Bee in its amended complaint dated March 24, 1982 and/or proposed amended and supplemental complaint served on December 20, 1983 in the action entitled Sweater Bee by Banff v. Manhattan Industries, 81 Civ. 3975, including specifically:

(a) with respect to Sweater Bee's claims for disparagement, unfair competition, fraud and interference with advantageous business relations asserted in the twenty-fifth claim for relief in Sweater Bee's amended complaint (but not

heretofore dismissed or withdrawn) and proposed second amended and supplemental complaint, every issue of fact or law relating thereto which is based upon any alleged act or omission of claimants asserted to be inconsistent with the Order;

(b) Sweater Bee's claim for false designation of origin in violation of 15 U.S.C. § 1125(a) asserted in the twentieth claim for relief in Sweater Bee's amended complaint and proposed second amended and supplemental complaint;

(c) Sweater Bee's claim for civil contempt asserted in the twenty-first claim for relief in Sweater Bee's proposed second amended and supplemental complaint;

(d) with respect to Sweater Bee's claims under the federal anti-trust laws and the New York General

Business Law asserted in the sixteenth, seventeenth, eighteenth, nineteenth and twenty-fourth claims for relief in the amended complaint and proposed second amended and supplemental complaint and Sweater Bee's claims under the Racketeer Influenced and Corrupt Organizations Act in the twenty-second claim of the proposed second amended and supplemental complaint, every dispute between claimants and Sweater Bee concerning whether any use by claimants of the KIMBERLY trademark since February 27, 1981 has been in a manner inconsistent with the terms of the Order, the circumstances leading to such use and whether and to what extent Sweater Bee has been injured by any such use;

(2) every dispute between claimants and Sweater Bee concerning whether any

use by claimants of the KIMBERLY trademark since February 27, 1981 has been in a manner inconsistent with the terms of the Order, the circumstances leading to such use, and whether and to what extent Sweater Bee has been injured by any such use;

(3) whether any use by Sweater Bee of the KIMBERLY trademark since February 27, 1981 has been in a manner inconsistent with the terms of the Order, the circumstances leading to such use, and whether and to what extent claimants have been injured by any such use.

DAVIS, MARKEL, DWYER & EDWARDS

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TO: Dennis Grossman, Esq.
60 East 42nd Street, Suite 625
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Attorneys for Sweater Bee
by Banff, Ltd.

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Sweater Bee by Banff, Ltd.
1410 Broadway
New York, N.Y.

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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APPENDIX H

Letter of Petitioner's Counsel to District Court Objecting to Respondents' Arbitration Intentions, on Grounds of Improper Forum Shopping

[Letterhead of Dennis Grossman, attorney for plaintiff Sweater Bee By Banff, Ltd.]

January 20, 1984

Honorable Vincent L. Broderick
United States District Court
40 Centre Street (Suite 3004)
New York, New York 10007

Re: Sweater Bee By Banff, Ltd. v. Manhattan Industries, Inc., et al.
Index No. 81 Civil 3975 (VLB)

Dear Judge Broderick:

I write in response to the defendants Manhattan-Bayard's letter to Your Honor this morning and to explain the plaintiff's positions on the 3 major areas of disagreement in the parties' respective scheduling proposals.

The parties have exchanged certain financial and sales data and have substantial differences in scheduling in 3 major areas: (1) the scheduling of a

trial of criminal contempt, (2) the availability to the defendants of arbitration for the source-reference claims after the defendants delayed 22 months in seeking arbitration while they challenged unsuccessfully the merits and legal sufficiency of the source-reference claims in this Court, and (3) the structure of discovery concerning the claims arising out of the earlier trademark action.

1. Scheduling of trial of charges of criminal contempt against defendants Manhattan-Bayard

The plaintiff Sweater Bee respectfully submits that under Federal Criminal Rule 42(b) the charges of criminal contempt should receive priority in this action and that this Court should schedule a trial of the criminal contempt charges as quickly as is consistent with the Court's schedule and with the interests of justice. The prompt resolution of the charges of criminal contempt will

serve the public interest underlying compliance with this Court's compulsory process and will substantially contribute to other legitimate judicial interests in the administration of this action.

The defendants Manhattan-Bayard seek to delay a criminal contempt trial by belatedly seeking arbitration of the parties' civil dispute and by proposing that arbitration take precedence over the criminal processes of this Court. The plaintiff strenuously objects to this obviously dilatory tactic.

As addressed more fully below, the defendants Manhattan-Bayard clearly have waived arbitration of the source-reference claims by, inter alia, delaying their arbitration request for 22 months while they intensely litigated the merits and legal sufficiency of the plaintiff's source-reference claims in 2 dispositive motions which this Court denied. But

even apart from this clear waiver, the defendants' belated proposal for an arbitration cannot justify a delay in the trial of the criminal contempts. The evidentiary and procedural rulings in civil arbitration are not taylored to the resolution or illumination of criminal issues. In addition, the record in an arbitration forum would focus on civil issues and would not assist in the resolution of a criminal contempt proceeding. Virtually all of the arbitration issues (such as causation, damages, offsets, mitigation of damages, etc.) would be irrelevant in a criminal contempt proceeding which focuses on wilfullness.

Finally, an examination of the arbitration-record prior to a criminal contempt proceeding presumably would entail the preparation of additional memoranda of law and motion papers directed to the arbitration record, thereby

creating substantial delay and expense for the parties, an additional burden upon the Court, and the encumbrance of the criminal record with substantially irrelevant material relating to civil damages, causation, etc.

It is significant that for 2 years the plaintiff's prosecution of the source-reference claims did not budge the defendants Manhattan-Bayard from continuing to maintain their illegal telephone listing under the name "Kimberly" without a source-reference and that only the service of the criminal contempt papers within the past month has prompted the defendants Manhattan-Bayard to change their blatantly illegal telephone listing.

The issues to be resolved in a criminal contempt proceeding are straightforward. The mandate of Federal Criminal Rule 42(b) for a prompt trial of

criminal contempt is clear.

2. The defendants Manhattan-Bayard's 22-month delay in seeking arbitration while these defendants made 2 unsuccessful motions seeking to dismiss the source-reference claims on the merits

During the past 22 months the defendants Manhattan-Bayard challenged the source-reference claims on the merits in 2 separate dispositive motions without seeking or even mentioning arbitration. After their delay of 22 months and lack of success in their 2 dispositive motions addressing the merits and legal sufficiency of the source-reference counts, the defendants Manhattan-Bayard now seek to transfer the source-reference counts to arbitration and thus force the plaintiff to incur for naught the expenditure of the previous 22 months in litigation over the source-reference claims.

In their belated request for arbitration, the defendants Manhattan-

Bayard are engaging in the worst form of forum-shopping. The defendants Manhattan-Bayard have "tested" this Court on the merits of the source-reference counts and now seek to move the source-reference litigation elsewhere. For example, in the defendants Manhattan-Bayard's first motion to dismiss the First Amended Complaint, the defendants Manhattan-Bayard moved to dismiss on the merits by challenging the sufficiency of the plaintiff's source-reference counts under the Lanham Act (count 20) and under various other theories. After sustaining the loss of their motion before this Court, the defendants now seek to transfer the action to arbitration.

Similarly, in the defendants Manhattan-Bayard's same motion to dismiss the First Amended Complaint, the defendants Manhattan-Bayard challenged the legal sufficiency of plaintiff

Sweater Bee's claim for punitive damages. This Court rejected the defendants' challenge and upheld the sufficiency of plaintiff's claim for punitive damages. (See this Court's Memorandum Order of October 18, 1982 at p. 15) Substantial precedent in the Second Circuit supports this Court's decision upholding the sufficiency of plaintiff's punitive damage claims against the corporate defendants under New York law. See, e.g., Brink's, Inc. v. City of New York, 717 F.2d 700, 704-6 (2d Cir. 1983); Doralee Estates, Inc. v. Cities Service Oil Co., 569 F.2d 716, 721-22 (2d Cir. 1977). Now that the defendants Manhattan-Bayard have challenged the merits and sufficiency of the plaintiff's punitive damage allegations -- and have lost in their challenge -- the defendants seek to avoid the consequences of their own motion and seek to transfer this action to an arbitration

forum where the availability of punitive damages is open to serious question. Cf. Garrity v. Lyle Stuart, Inc., 40 N.Y.2d 354, 386 N.Y.S.2d 831 (1976) (punitive damages not available under New York arbitration statute which parallels the Federal Arbitration Act).

In addition, the defendants Manhattan-Bayard gave other indications of their intent to litigate the source-reference claims in this Court. For example, the defendants Manhattan-Bayard opposed the plaintiff's discovery motion before Your Honor in May 1983 by arguing against "piecemeal" discovery. (See annexed page 6 at lines 16-22 of transcript of oral argument of May 25, 1983.) The defendants' own unqualified reference to "piecemeal" discovery on the source-reference claims evidences the defendants' own intent to engage in further litigation of the source-reference claims

in this Court. The defendants simply have changed their mind.

The foregoing is intended merely to outline briefly the plaintiff's position in this matter and is without prejudice to all other arguments including the inapplicability of the arbitration provisions in the first instance which, in any event, is a question which this Court need not reach in light of the defendants' Manhattan-Bayard's clear waiver of whatever arbitration provisions exist. The plaintiff strenuously objects to the defendants' belated and opportunistic forum-shopping.

3. The structure of pretrial discovery concerning the defendants' improper commencement of the earlier trademark action

Finally, the parties disagree over the structure of discovery on the claims arising out of the earlier trademark action. The defendants propose to

bifurcate discovery by initially inquiring only of the issues of fraud and perjury, while the plaintiff seeks to conduct discovery of all issues going to the merits simultaneously. The defendants' proposal inevitably would lead to 2 levels of summary-judgment motions, while the plaintiff's position is more likely to result in only 1 layer of summary judgment paper.

We remain prepared to discuss these and other issues at the conference which Your Honor has scheduled for this afternoon.

Respectfully,

/s/ Dennis Grossman

Dennis Grossman
Attorney for Plaintiff
Sweater Bee By Banff, Ltd.

DG/wd
Enclosure.
By Messenger

cc: Thomas J. Sweeney III, Esq.
(by messenger; with enclosure);
Paul Fields, Esq.
(by messenger; with enclosure);
George Donaldson, Esq.
(by messenger; with enclosure).

[Enclosure: extract from transcript of May 25, 1983 oral argument]

Court to withhold at the present time, because otherwise it's going to mean piecemeal discovery now and again later. And not only that, the materials that Mr. Grossman is asking for -- that is, the ten items -- as I said before, we are willing to produce eight of them insofar as they exist. Some of them don't exist.

For example, the garments are made in the United States. There are no Customs receipts or invoices.

We are willing to produce the other materials. We are only asking the Court at this time to permit us to withhold the purchase orders and the invoices, aside from everythingn else they don't even show what Mr. Grossman wants.

THE COURT: For competitive reasons, you want that withheld.

MR. FIELDS: For two reasons: for

competitive reasons and also so we don't have to engage in piecemeal discovery at this time.

Eventually I assume that somewhere down the line we may have to produce invoices of some type or another, I don't know. But it would mean going over them twice or three times once we get all the discovery set down. I'm only asking that at the present time -- they're all being preserved; they have to be preserved for at least a minimum of three years, your Honor, and books of account have to be

No. 84-1792

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ALEXANDER L. STEVAS,
CLERK

IN THE

Supreme Court of the United States

October Term, 1984

SWEATER BEE BY BANFF, LTD.,

Petitioner,

v.

MANHATTAN INDUSTRIES, INC. and
BAYARD SHIRT CORPORATION,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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June 12, 1985

BEST AVAILABLE COPY

QUESTION PRESENTED

Did the District Court and the Court of Appeals properly hold that respondents had not waived arbitration where pursuant to the terms of a consent judgment agreed to by petitioner, respondents raised arbitration as a defense in their answer, moved promptly for a stay of proceedings and, prior to answering, had taken no discovery and made only a motion to dismiss pursuant to Fed.R.Civ.P. 12(b)(6)?

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No. 84-1792

IN THE

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October Term, 1984

SWEATER BEE BY BANFF, LTD.,

Petitioner,

v.

MANHATTAN INDUSTRIES, INC. and
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ON PETITION FOR A WRIT OF CERTIORARI
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RESPONDENTS' BRIEF IN OPPOSITION

OPINION BELOW

The Opinion of the United States Court of Appeals for the Second Circuit is reported at 754 F.2d 457 (2d Cir. 1985). The Order of the District Court for the Southern District of New York appears in Petitioner's Appendix B.

JURISDICTION

The jurisdictional requisites are adequately set forth in the Petition.

STATEMENT OF THE CASE

The facts and prior proceedings in the case are stated fully in the decision of the Court of Appeals, 754 F.2d at 458-60.

REASONS WHY THE WRIT SHOULD BE DENIED

This case presents no issues worthy of certiorari.

The parties agreed in a consent judgment terminating a prior litigation to arbitrate "[a]ll disputes under or arising out of this judgment. . . ." The question presented to and decided by the Court of Appeals was whether respondents, by certain limited activity in this action prior to filing an answer to the amended complaint demanding arbitration, had waived their right to arbitration. The Court of Appeals, in a thorough, well reasoned opinion soundly based on clear and long-standing precedent, affirmed the District Court's finding of no waiver. There is no reason for this Court to disturb this decision, which is wholly consistent with this Court's numerous decisions supporting the strong federal policy favoring arbitration.

Petitioner's suggested modification of the law of waiver, which it conceded below is not based on even a single case, would unsettle the law of waiver and undercut the effectiveness of arbitration.

I. THE DECISION OF THE COURT OF APPEALS IS CONSISTENT WITH THIS COURT'S DECISIONS SUPPORTING THE STRONG FEDERAL POLICY FAVORING ARBITRATION

This Court's consistent endorsement of the strong federal policy favoring arbitration was explicitly relied upon and underlies the opinion of the Court of Appeals in this action. The Court of Appeals explicitly followed the mandate expressed in this Court's opinion in *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 24 (1983), regarding the proper approach for a federal court considering questions relating to arbitration. 754 F.2d at 461. In *Moses H. Cone*, this Court stated:

> [T]he Courts of Appeals have . . . consistently concluded that questions of arbitrability must be addressed with a healthy regard for the federal policy favoring arbitration. We

> agree. The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability. 460 U.S. at 24-25.

In a footnote to this text, this Court cited with approval a number of cases, including three cases dealing with waiver of arbitration. 460 U.S. at 25 n.31. One of these cases was a 1971 decision of the Tenth Circuit, *Hart v. Orion Insurance Co.*, 453 F.2d 1358 (10th Cir. 1971), in which that Court, rejecting a claim of waiver, stated that "[i]n view of the overriding federal policy favoring arbitration, waiver is not lightly inferred." *Id.* at 1360. The Tenth Circuit's opinion relied upon *Carcich v. Rederi A/B Nordie*, 389 F.2d 692 (2d Cir. 1968), and held that "[t]he question of waiver turns on the presence or absence of prejudice." 453 F.2d at 1361.[1] The analysis and precedent relied upon in the Court of Appeals' opinion in this case is completely consistent with the *Hart* decision and the other waiver cases cited by the Court in *Moses H. Cone*.[2] Indeed, the Second Circuit's opinion below explicitly follows *Carcich* and *Kulukundis Shipping Co. v. Amtorg Trading Corp.*, 126 F.2d 978 (2d Cir. 1942), the leading case on waiver in that Circuit, from which Judge Kaufman stated *Carcich* followed "a fortiori". *See* 754 F.2d at 461; 389 F.2d at 695.[3] The Court of Appeals also observed that "[t]he case at bar also follows a fortiori from *Kulukundis*. . . ." 754 F.2d at 462.

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[1] As will be demonstrated *infra* at 5-6, there is a complete absence of prejudice to petitioner.

[2] In *Germany v. River Terminal Railway*, 477 F.2d 546, 547 (6th Cir. 1973), the Sixth Circuit, finding no waiver of arbitration, stated: "waiver may not be inferred from the fact that a party does not rely exclusively on the arbitration provisions of a contract, but attempts to meet all issues raised in litigation between it and another party to the agreement." The Seventh Circuit in *Dickinson v. Heinold Securities, Inc.*, 661 F.2d 638 (7th Cir. 1981), found no waiver despite a delay of eighteen months in seeking arbitration and noted that " 'waiver of arbitration is not lightly to be inferred.' " *Id.* at 641 (quoting *Midwest Window Systems v. Amcor Industries, Inc.*, 630 F.2d 535, 536 (7th Cir. 1980)).

[3] We note that petitioner neither cites any Court of Appeals decision inconsistent with the opinion below nor claims that the opinion below conflicts with that of any other Circuit.

Petitioner contends the Court of Appeals' opinion conflicts with this Court's opinion in *United Steelworkers v. American Manufacturing Co.*, 363 U.S. 564 (1960), because it permits "judicial intrusion into the merits of arbitrable controversies" which petitioner asserts is prohibited by *American Manufacturing*.[4] (Petition at 13.) This assertion is curious on its face, in that petitioner seeks *not* to protect its right to an arbitral decision, but to deprive *respondents* of their bargained-for right to arbitration.

Moreover, *American Manufacturing*, a case involving arbitration in the unique context of a collective bargaining agreement under § 301 of the Labor Management Relations Act, is clearly distinguishable. The opinions in *American Manufacturing* and the two companion cases relating to labor arbitrations decided the same day by the Court, *United Steelworkers v. Warrior & Gulf Navigation Co.*, 363 U.S. 574 (1960), and *United Steelworkers v. Enterprise Wheel and Car Corp.*, 363 U.S. 593 (1960), make clear that labor arbitrations are designed to further the goal of industrial peace and are, therefore, distinctly different in purpose and nature from the sort of commercial arbitration at issue here. For example, in the *Warrior & Gulf* case, the Court stated:

> "In the commercial case, arbitration is the substitute for litigation. Here arbitration is the substitute for industrial strife. [A]rbitration of labor disputes has quite different functions from arbitration under an ordinary commercial agreement. . . . For arbitration of labor disputes under collective bargaining agreements is part and parcel of the collective bargaining process itself." 363 U.S. at 578.

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[4] Petitioner did not raise this issue in the Court of Appeals, nor did it cite *American Manufacturing* below. Its failure to present this issue to the Court of Appeals precludes it being raised in this Court for the first time. As this Court stated in *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970), "[w]here issues are neither raised before nor considered by the Court of Appeals, this Court will not ordinarily consider them." *Accord Neely v. Martin K. Eby Construction Co.*, 386 U.S. 317, 330 (1967); *Lawn v. United States*, 355 U.S. 339, 362 n.16 (1958).

Indeed, the *Warrior & Gulf* Court specially stated that "the run of arbitration cases, illustrated by *Wilko v. Swan*, 346 U.S. 247, . . . [is] irrelevant to our problem." *Id.*[5]

Unlike the unions in *American Manufacturing* and its companion cases, petitioner here does not seek to vindicate its right to arbitrate. Rather, it claims that a waiver of arbitration as to all arbitrable claims should be found because the District Court was presented with a motion to dismiss by respondents. Nor does petitioner challenge the District Court's decision on the motion as incorrect or seek to reverse its ruling. That is not surprising since the District Court's rulings were primarily favorable to petitioner. Indeed, only a single frivolous arbitrable claim in its thirty-count complaint was dismissed.[6] As the Court of Appeals stated, respondents were "almost totally unsuccessful on [their] motion to dismiss." 754 F.2d at 466. Thus, even if the *American Manufacturing* trilogy were applicable to this commercial context, it offers petitioner, which seeks not to enforce its right to an arbitral decision but to avoid arbitration altogether, no solace.

The fact that petitioner emerged from the motion to dismiss virtually unscathed also means that it, as the Court of Appeals held, is unable to assert a critical element of its heavy waiver burden—prejudice. 754 F.2d at 463. The Court of Appeals, in accordance

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[5] This theme was echoed in the separate opinion of Justices Brennan and Harlan, joined in by Justice Frankfurter: "The Court rightly concludes that appropriate regard for the national labor policy and the special factors relevant to the labor arbitral process, admonish that judicial inquiry into the merits of this grievance should be limited. . . ." 363 U.S. at 572.

[6] This purported claim which the Court of Appeals found was "at best frivolous", 754 F.2d at 463, was for interference with contractual relations. The Court of Appeals stated: "Sweater Bee knew or should have known that such a claim requires an actual and existing contract and knowledge of that contract, neither of which conditions were alleged here." 754 F.2d at 463. Significantly, petitioner has never contended that the Court's decision as to this claim was incorrect. Nor is it conceivable that any arbitrator could have come to a different conclusion.

with the consistent law in the Second Circuit and elsewhere,[7] specifically addressed whether there was any prejudice to petitioner, and found essentially none. *See* 754 F.2d at 463-65. Nor does the petition address the question of prejudice, except in a purely theoretical fashion. (*See* Petition at 18-21.) The reality is that petitioner, as the Court of Appeals pointed out, 754 F.2d at 463, is in essentially the same position it would have been if respondents had requested arbitration before moving to dismiss.[8]

II. THE RULE OF LAW REGARDING WAIVER PETITIONER URGES WOULD SIGNIFICANTLY UNDERCUT THE FEDERAL POLICY FAVORING ARBITRATION

Petitioner suggests that the Court should hold that any Rule 12(b)(6) motion directed to the merits, *i.e.* any motion for failure to state a claim, should be deemed an automatic waiver of arbitration. Petitioner gives no cogent reason why this Court should overturn over forty years of precedent in the Second Circuit and elsewhere, and thereby reduce the number of disputes to be heard in arbitration. Such a holding, we submit, would be directly contrary to the strong federal policy of encouraging arbitration.

Moreover, the rule petitioner suggests would significantly undercut the expectations of litigants based on current law. Witness the example of respondents here. Respondents acted precisely as the Federal Rules of Civil Procedure and case law regarding waiver of

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[7] *See, e.g., J&S Construction Co., Inc. v. Travelers Indemnity Co.*, 520 F.2d 809, 810 (1st Cir. 1975); *Gavlik Construction Co. v. H. F. Campbell Co.*, 526 F.2d 777, 783 (3rd Cir. 1975); *Carolina Throwing Co. v. S&E Novelty Corp.*, 442 F.2d 329, 331 (4th Cir. 1971); *Midwest Window Systems v. Amcor Industries, Inc.*, 630 F.2d 535, 537 (7th Cir. 1980); *Shinto Shipping Co., Ltd. v. Fibrex & Shipping Co., Inc.*, 572 F.2d 1328, 1330 (9th Cir. 1978); *Hart v. Orion Insurance Co.*, 453 F.2d 1358, 1361 (10th Cir. 1971).

[8] Indeed, petitioner, which has substantially benefitted from discovery conducted while respondents' motion for reargument was pending, is probably in a better position. This discovery was heavily relied upon by petitioner in making its motion for contempt. Moreover, it has had the benefit of that discovery in the civil contempt proceeding now being conducted.

arbitration permit—before answering, as is specifically provided in Rule 12(b)(6),[9] they moved to dismiss for failure to state a claim—then when they did file their answer, they pleaded arbitration as a defense to Sweater Bee's source reference claims. As the Court of Appeals indicated, "[n]ot a single case cited serves to put Manhattan on notice that a defendant's failure to file a request for arbitration before answering would constitute a waiver of his conceded right to obtain arbitration in connection with the arbitrable claims advanced." 754 F.2d at 466. Indeed, case law in the Second Circuit is uniformly to the effect that no waiver can be found until *after* the defendant files its answer. *Robert Lawrence Co. v. Devonshire Fabrics, Inc.*, 271 F.2d 402, 412-13 (2d Cir. 1959) *cert. dismissed*, 364 U.S. 801 (1960); *Clar Productions, Ltd. v. Isram Motion Pictures Production Services, Inc.*, 529 F. Supp. 381, 383 (S.D.N.Y. 1982); *Lumbermens Mutual Casualty Co. v. Borden Co.*, 268 F. Supp. 303, 312 (S.D.N.Y. 1967); *Necchi Sewing Machine Sales Corp. v. Carl*, 260 F. Supp. 665, 668 (S.D.N.Y. 1966). *Accord, General Guaranty Insurance Co. v. New Orleans General Agency, Inc.*, 427 F.2d 924, 929 n.5 (5th Cir. 1970) (burden of showing waiver is "heavy" if defendant has given notice of arbitration in the answer); *Hilti, Inc. v. Oldach*, 392 F.2d 368, 371 (1st Cir. 1968).

The "intricate" amended complaint contained thirty claims, including seventeen antitrust claims and nineteen nonarbitrable claims relating to alleged fraud in the prior trademark action. Faced with this plethora of claims, many of them frivolous,[10] respondents "not surprisingly" moved to dismiss. *See* 754 F.2d at 466.

Petitioner complains that the Court of Appeals' distinction between summary judgment and rule 12(b)(6) motions "makes no sense for purposes of arbitration waiver." (Petition at 31.) However, that distinction is clearly established in the waiver case law[11] and is

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[9] *See*, 754 F.2d at 463.

[10] Confronted with the motion, petitioner withdrew four claims and part of another. The District Court dismissed three claims (only one of which was arbitrable) and portions of two claims.

[11] *See, e.g., Weight Watchers of Quebec Ltd. v. Weight Watchers International, Inc.*, 398 F.Supp. 1057, 1060 (E.D.N.Y. 1975); *Lubrizol International, S.A. v. M/V Stolt Argobay*, 562 F.Supp. 565, 573 (S.D.N.Y. 1982); *cf. Canadian Overseas Ores Ltd. v. Compania De Acero Del Pacifico S.A.*, 727 F.2d 274, 277-78 (2d Cir. 1984) (defense of foreign sovereign immunity not waived by motion to dismiss).

designed to result in a waiver when the party making the motion invites the Court, rather than an arbitrator, to decide the factual merits of the controversy between the parties.[12] Here, as in virtually all 12(b)(6) motions, the District Court merely determined the sufficiency *vel non* of a pleading—it did not delve into the facts, nor did respondents invite such a factual inquiry. Indeed, the District Court's memorandum specifically stated that it would not treat the motion as one for summary judgment.[13] (A-32)

Petitioner makes a number of "judicial economy" policy arguments to support its position that a waiver should be found in this case. As the Court of Appeals observed, petitioner's claim that the District Court order compelling arbitration would disserve judicial economy is "surely a rather surprising thought for those who have followed the arbitration versus litigation arguments of the last several decades." 754 F.2d at 465. Notwithstanding that telling observation, all petitioner's judicial economy arguments were discussed by the Court of Appeals which rejected them in convincing fashion. For example, petitioner's "forum shopping" argument was fully considered by the Court which indicated that the claimed prejudice to plaintiff was "highly speculative, if not illusory." 754 F.2d

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[12] Or as the *Lubrizol* Court put it, "asks [the] Court to be the final arbiter of the dispute. . . ." 562 F.Supp. at 573; *accord, Jones Motor Co. v. Chauffeurs Local Union*, 671 F.2d 38, 44 (1st Cir. 1982) (waiver held where Union moved for summary judgment and "was ready to accept the determination of the district court on the merits. . . .").

[13] Petitioner seeks to ignore this distinction between factual determinations and motions directed to the sufficiency of pleadings arguing they both go "to the merits." However, it cites no cases holding that motions to dismiss can be a basis for waiver. Indeed, the only two waiver cases found by either party in which a defendant made a motion directed to the sufficiency of the pleadings found no waiver. *Haupt v. Rose*, 265 N.Y. 108 (1934) and *Necchi Sewing Machine Sales Corp. v. Carl*, 260 F.Supp. 665, 666 (S.D.N.Y. 1966) (in which defendant made a demurrer based, *inter alia*, on the failure to state a cause of action). In both these cases, the motions were denied and the courts found that the defendants' actions did not constitute waiver of their right to arbitrate. 265 N.Y. at 110; 260 F.Supp. at 668. Petitioner seeks to distinguish these cases as "not on the merits". (Petition at 17-18.) Defendant's demurrer in *Necchi* was directed to the merits of the claim, however, and was the equivalent of a 12(b)(6) motion. *See*, 754 F.2d at 465; Fed. R. Civ. P. 12 advisory committee note. Nor does the *Haupt* Court's discussion of waiver support petitioner's distinction.

at 464-65. In addition, if a plaintiff (unlike petitioner) sincerely wishes to avoid a judicial determination of its arbitrable claims, there is a simple solution to the supposed dilemma—once defendant moves to dismiss, plaintiff can simply request arbitration. Plaintiff can also seek arbitration in the first instance. Sweater Bee, of course, did not do so—it has always sought to *avoid* its firm agreement to arbitrate and to pursue its claim solely in a judicial forum.

The Court of Appeals also considered and rejected petitioner's argument that the Court's decision would encourage unnecessary 12(b)(6) motions. The Court, which followed decades of authority regarding waiver, stated: "[w]e see no signs of this, nor do we think it will take place." 754 F.2d at 465. Indeed, the considerable risk that a court may treat the motion as one for summary judgment is a significant deterrent to most such motions. *Id.*

Finally, the Court of Appeals, while recognizing that in some instances a district court may have to review an arbitrator's decision to determine whether it conforms to the court's 12(b)(6) decision, observed that the problem was "essentially the same" in any case where a Court was asked to enforce or vacate an arbitral award. 754 F.2d at 465-466. In addition, since the issues raised in this action have arisen out of an Order of the District Court, that Court may well have an obligation to see that the arbitrator has not misinterpreted the Order.

Even if petitioner's "judicial economy" arguments were persuasive, this Court's recent opinion in *Dean Witter Reynolds Inc. v. Byrd*, 53 U.S.L.W. 4222 (March 4, 1985), clearly holds that the federal courts must enforce arbitration agreements "even where the result would be the possibly inefficient maintenance of separate proceedings in different forums." 53 U.S.L.W. at 4223. The Court, in enforcing an agreement to arbitrate, explicitly rejected precisely the type of judicial economy arguments petitioner makes here in support of its effort to escape its undisputed agreement to arbitrate. *Id.* at 4223-24.

Moreover, it is significant that petitioner's "judicial economy" agruments, while purporting to be in furtherance of the federal policy favoring arbitration, are calculated to undercut that policy by expanding the prospects for waiver. Current waiver law imposes a "heavy burden" on one asserting waiver, *see* 754 F.2d at 466, but

petitioner would eliminate or radically reduce this burden. The inevitable result would be less disputes arbitrated and more litigation in the federal courts. Such a result is clearly contary to the clear, emphatic federal policy favoring arbitration as expressed by Congress in the Arbitration Act and by this Court in numerous opinions.

CONCLUSION

This case was correctly decided by the Court of Appeals for the Second Circuit. The decision does not conflict with decisions of the Supreme Court or of other Circuits. In contrast, the result petitioner suggests is inconsistent with existing case law regarding waiver of arbitration and the strong federal policy favoring arbitration. For these reasons, respondents respectfully request that the Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit be denied.

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